BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

Thursday, March 7, 2013

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

10:00 a.m.

1. Roll Call.

2. Approval of the minutes of the November 13, 2012 Board of Directors meeting. **.................... 1**

3. Approval of the minutes of the January 17, 2013 Board of Directors meeting. **........................ 57**

4. Chairman/Executive Director comments.

5. Report of the Audit Committee Chairman. (Ruben Smith)

6. Update and discussion regarding Multifamily Portfolio Preservation Program. (Jim Morgan)

7. Update, discussion and possible action regarding Single Family Lending Program.

8. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing the Agency's single family bond indentures, the issuance of single family bonds, short term credit facilities for homeownership purposes, and related financial agreements and contracts for services. (Tim Hsu)
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9. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing the Agency's multifamily bond indentures, the issuance of multifamily bonds, short term credit facilities for multifamily purposes, and related financial agreements and contracts for services. (Tim Hsu)
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Agenda:#242392v1
BdMtg:03-07-13

10. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing applications to the California Debt Limit Allocation Committee for private activity bond allocations for the Agency's homeownership and multifamily programs. (Tim Hsu)
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11. Informational workshop discussing Board governance. (Victor James)

12. Reports:

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    C. Update on Variable Rate Bonds and Interest Rate Swaps **263**

    D. Update on Keep Your Home California Program ....**Handout**

    E. Legislative Update ....**Handout**

    F. Status of CalHFA—HCD coordination efforts

13. Discussion of other Board matters.

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

15. Adjournment

16. Handouts

NOTES**

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

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be May 9, 2013, at the Holiday Inn Capitol Plaza, Sacramento, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Burbank Airport Hilton & Convention Center
2500 Hollywood Way
Burbank, California

Tuesday, November 13, 2012
10:00 a.m.

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

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A P P E A R A N C E S

Board of Directors Present

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

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing and Redevelopment Agency

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

RUSSIA CHAVIS
for Brian P. Kelly
Acting Secretary
Business, Transportation & Housing
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

JACK SHINE
Chairman
American Beauty Development Co.

LINN WARREN
Director
Department of Housing and Community Development
State of California

A P P E A R A N C E S

Participating CalHFA Staff

VICTOR J. JAMES
General Counsel

CARR KUNZE
Loan Officer

JAMES S.L. MORGAN
Loan Officer
Acting Chief of Multifamily Programs

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

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PUBLIC TESTIMONY

BRANDON DINON
USA Properties Fund, Inc.

GRAHAM ESPLEY-JONES
BVH Development, LLC

LILLIAN LEW-HAILER
Senior Project Manager
LEED AP
Mid-Peninsula Housing

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BE IT REMEMBERED on Tuesday, November 13, 2012, commencing at the hour of 10:06 a.m., at Burbank Airport Hilton & Convention Center, 2500 Hollywood Way, Burbank, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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ACTING CHAIR CAREY: Welcome to the November meeting of the Board of Directors of the California Housing Finance Agency.

The first order of business is the roll call.

--oOo--

Item 1. Roll Call

MS. OJIMA: Thank you.
Mr. Gunning?
MR. GUNNING: Here.
MS. OJIMA: Mr. Hunter?
MR. HUNTER: Here.
MS. OJIMA: Ms. Carroll for Mr. Lockyer?
MR. LOCKYER: Here.
MS. OJIMA: Ms. Chavis for Mr. Kelly?
MR. KELLY: Here.
MS. OJIMA: Ms. Boatman Patterson?
MS. BOATMAN PATTERSON: Here.
MS. OJIMA: Mr. Shine?
MR. SHINE: Here.

MS. OJIMA: Mr. Smith?

MR. SMITH: Here.

MS. OJIMA: Mr. Warren?

MR. WARREN: Here.

MS. OJIMA: Mr. Alex?

(No response)

MS. OJIMA: Ms. Matosantos?

(No response)

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Here.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIR CAREY: Thank you.

--oOo--

Item 2. Approval of Minutes

ACTING CHAIR CAREY: The second item of business is approval of the minutes of September 20th.

MR. HUNTER: I'll move approval.

ACTING CHAIR CAREY: It's been moved.

MR. WARREN: Second.

ACTING CHAIR CAREY: And seconded.

Roll call, please.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Ms. Boatman Patterson?

MS. BOATMAN PATTERSON: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith?

MR. SMITH: Aye.

MS. OJIMA: Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Aye.

MS. OJIMA: The minutes have been approved.

ACTING CHAIR CAREY: Thank you.

--oOo--

Item 3. Chairman/Executive Director Comments

ACTING CHAIR CAREY: I'd like to just take one moment to announce that I'm appointing Russia Chavis to the Board's Compensation Committee, which is chaired by Mr. Gunning. And Mr. Shine and I are the other two members on that committee.

Thank you, Ms. Chavis, for agreeing to do that.

MS. CHAVIS: You're welcome.

ACTING CHAIR CAREY: And with that, I'll turn the meeting over to our Executive Director.

MS. CAPPIO: Great. Good morning.

I have a few items of note.

First, our TCLP, the Temporary Credit Liquidity Program, through U.S. Treasury, was extended for two years or three years -- 2015. So that is, all the agreements are signed and done. That was good to get completed.

Moody's, one of our rating agencies, has extended their review now for up to 90 days, which means we will be expecting a review early next year, or a final rating early next year.

As for the Governor's Reorganization Plan status report, both HCD and CalHFA worked on a project implementation document. We submitted that to Business, Transportation and Housing. It's under their review now. And from there, they will go -- all those PIDs will go into the Governor's office for their review and consideration. We expect that to happen within the next few weeks.

I'm not sure whether we'll get a chance to review any comments that BT&H had, but that's the procedure going along, is that it has gone to BT&H, and now will get forwarded to the Governor's office.

The last item is that CalHFA was included in two recent audits of the Bureau of State Audits.

The first one had to do with the adequacy of databases in state government; and the second one was a review of the disbursements and results of both Prop. 46 and Prop. 1-C.

We are included in those audits. They had no findings or material significant comments for us, but we were included in them.

They are -- if you would like to look further, they are on the BSA Web site.

That's it.

ACTING CHAIR CAREY: Thank you.

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Item 4. Report of the Audit Committee Chairman

ACTING CHAIR CAREY: With that, we will move on to the report from the Audit Committee chairman, Mr. Smith.

MR. SMITH: We met this morning to go over the audit. And it was a very good audit from the staff standpoint. We had no significant findings.

There were some minor issues that we discussed related to the audit; and those related to just some misstatements in how we, for example, book our REO sales. And that resulted in a $4 million correction, which is really insignificant, given the numbers we're dealing with. And it was just the way, the timing of when it was booked. So that was one minor item.

The other minor item is how -- it was a cash flow issue of when we get federal funds in, we've got to -- by federal rules -- pay them out within three days, three business days. And I think we're doing seven to 11 days, which is not bad, when you think about it. But nevertheless, it's an issue that we need to deal with, and we're coming up with ideas to do that.

The third issue was the derivative borrowing, which we had last time as well, which is just a correction in terms of a misstatement.

Those are the minor issues that came up in the audit.

Overall, the audit went well. And, again, there was no major issues. It was an unqualified audit.

If there's any questions from the rest of the Board members, I'll be open to hear them, and the staff is here to respond to them as well.

ACTING CHAIR CAREY: Any questions or comments?

(No response)

ACTING CHAIR CAREY: I would just say, I think it was positive to hear the report and have effectively gone through a transition of audit firms. I think it affirms the responsibility of the Board in due diligence. And I appreciate the work of the Committee.

Thank you for the report.

MR. SMITH: Thank you.

--oOo--

Item 5. Discussion, Recommendation and Possible Action regarding Final Loan Commitment for: 12-060-R/S Logan's Plaza, Compton/Los Angeles

ACTING CHAIR CAREY: And now we have some projects, which has been a rarity in recent years. It's great.

And with that, we're on Item 5. And we'll move through these projects one at a time.

And the first one is Logan's Plaza.

MR. MORGAN: Thank you, Mr. Carey, yes.

These are the last six projects for the Agency's 2012 New Issue Bond Preservation Loan Program.

Carr Kunze is the loan officer for Logan's Plaza and Century Village. He will be presenting those two loans. And yours truly will be presenting the last ones.

So we'll start off with Carr Kunze.

MR. KUNZE: Good morning, Mr. Chairman, Members of the Board.

Just one quick change to the notes. The investor entity has been changed to R4 Capital, a Limited Liability Corporation.

Logan's Plaza is a 61-unit senior project located in Compton. It is a hundred percent Section 8, save for the two new units that are being added, converted and added to it.

It was originally built in 1963. And a few pictures -- I kind of jumped ahead -- of the existing property.

The community room, a typical kitchen for the property.

This is one of our earliest projects that were financed by CalHFA, originally financed in 1977. And as I said, it was built in 1963.

This development will be achieving a 17 percent energy savings. And it will have also some ADA improvements be made to it, some life-and-safety improvements. Particularly, I note in those regards is being brought up to market with the addition of a heat pump. Therefore, heating and air-conditioning being added to the units. Very important to this senior population, and I think a very worthwhile improvement.

In addition -- well, all together, there are some $54,000 per unit in rehabilitation being done to the property, a sizable sum, but representative of a property that was originally built in 1963.

It has some good locational advantages, including access to buses, transportation, a medical center nearby, groceries, pharmacy.

There will be no permanent displacement. There will be temporary relocation that is being accomplished in phases. Six units at a time. Five weeks each.

The market analysis for the development shows good, continuing support with a growing senior population in the market area.

Amongst the upgrades that are being performed are: Windows being upgraded to a low "E" window. Additional insulation. Improved security. Attic insulation. A cool roof, as that's characterized. Solar PV power to the common areas. Kitchen and bath improvements, of course. Hot water, solar. And then, as I mentioned, air-conditioning via the heat pumps and heating via the heat pumps, as well as modernization of the elevators.

The permanent loan underwrites that an 81 percent loan-to-value, to the restricted value of the property.

The rents to the development are at -- and these would be the TCAC rents -- are some 60 percent -- I'm getting myself turned around here. The TCAC rents are less than 80 percent of the market rents.

This development is having the advantage of Section 8. Section 8, of course, is just below the market -- some 95 percent of market.

I think that substantially concludes my comments on the development.

ACTING CHAIR CAREY: Questions on this project? Comments?

Yes, Mr. Gunning?

MR. GUNNING: Well, what is the staff looking for, from the Board, in terms of these projects? Is it just an awareness or comments or…?

MS. CAPPIO: I'm thinking that if you have any concerns about how the structure of the loan is set up, any aspect of the project as we have presented it to you, now is your chance before we call the question about having you approve the loan.

I mean, you are the fiduciary parents of these loans. So I would move thoughtfully.

ACTING CHAIR CAREY: Okay, no questions?

(No response)

ACTING CHAIR CAREY: Okay, I think it's true with all of these, I think it's remarkable that we are able to reposition these projects, bringing phenomenal energy savings, improvements, maintain this affordability. I think it fulfills the role of the Agency pretty nicely.

MS. CAPPIO: And in an era where there is not much new money, I think the emphasis on preservation and rehabilitation is critical so that we can preserve the affordable housing stock in California.

MR. SMITH: I assume that this is one of those deals that if we didn't do this, the life of this project would not be long.

MS. CAPPIO: It would be limited.

MS. BOATMAN PATTERSON: So the affordability is extended how long now? Until twenty- -- from 2019 --

MR. KUNZE: An additional 20 years now on the Section 8 affordability and --

MS. BOATMAN PATTERSON: Okay.

MR. MORGAN: 17 years on our loan.

MR. KUNZE: -- and 17 years on our loan, right.

MS. BOATMAN PATTERSON: Okay. Beyond the 2019, which it was supposed to originally expire?

MR. KUNZE: That's correct, right.

MS. BOATMAN PATTERSON: And this project hasn't been rehabbed since 1977?

MR. KUNZE: It may have had a few minor

improvements to it, but --

MS. BOATMAN PATTERSON: But not a major --

MR. KUNZE: -- not a project improvement.

MS. BOATMAN PATTERSON: But not a major rehab?

MR. KUNZE: That's right.

MR. WARREN: Just a question, Carr.

I'm assuming the HAP contract is subject to annual appropriation. Is that fair?

MR. KUNZE: That would be my understanding. It's an annual appropriation, but it's a 20-year contract that is being renewed -- being requested to be renewed.

MR. WARREN: Okay.

ACTING CHAIR CAREY: Before we entertain a motion, I would open this up to public comment.

If there is anyone in the public that would like to comment specifically on this project, I'd ask you to indicate so.

(No response)

ACTING CHAIR CAREY: Seeing none, we do have a resolution in front of us.

MR. GUNNING: Do you need a motion, Mr. Chairman?

ACTING CHAIR CAREY: We need a motion.

MR. GUNNING: So moved.

Resolution 12-13.

MR. HUNTER: Second.

MS. CAPPIO: -12.

ACTING CHAIR CAREY: 12-12, sorry. 12-12. Moved and seconded. Roll call, please.

MS. OJIMA: Thank you. Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Mr. Boatman Patterson?

MS. BOATMAN PATTERSON: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith?

MR. SMITH: Aye.

MS. OJIMA: Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Yes.

MS. OJIMA: Resolution 12-12 has been approved.

ACTING CHAIR CAREY: Thank you.

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Item 5. Discussion, Recommendation and Possible Action regarding Final Loan Commitment for: 12-050-R/N Century Village, Fremont/Alameda

ACTING CHAIR CAREY: And the next project is Century Village Apartments in Fremont.

MR. KUNZE: Thank you.

Century Village is a property that is located right in the high-tech corridor or area.

And you'll see some aerials there of the property in Fremont, and a close-up to the property.

It is a 100-unit family project. Again, existing CalHFA portfolio loan.

This one is achieving a rather phenomenal 44 percent increase in energy efficiency.

Again, this will include substantial modernization for the units, some $62,500 worth per unit of rehabilitation work that is going into the property.

Some of the issues that are being addressed in this rehabilitation will be dry rot, mold repair, and remediation. They will be adding photovoltaic solar for the common areas and solar hot water. They are creating some additional community space within the property.

There will be double-pane windows. Increased wall and attic insulation. Again, installation of heat pumps with system. And water-saving features are also being incorporated throughout the property.

There will, again, be no permanent displacement of the residents. There will be temporary relocation. The developer is going to be accomplishing this in two phases, and taking half of the property at one time, rehabilitating it, bringing in -- the tenants back into the housing, and then doing the second half.

Again, a property with very good access to schools, transportation, and services.

This is a project that is going to extend affordability in an already very tight 98 percent occupancy rental market in the high-tech area.

The rents, again, on this development, the TCAC rents are about 70 percent below market -- of the market rents, 30 percent lower.

And the permanent loan is being underwritten at some 65 percent loan-to-restricted-value.

That concludes my presentation on Century Village.

ACTING CHAIR CAREY: Thank you.

Questions?

MR. WARREN: So the project is receiving the benefit of a discount in rate for the energy efficiency.

Are the efficiencies translated into reduced operating costs? And if so, what's your general sense as to how the operating costs have been reduced because of the energy requirements being put on the property?

MR. KUNZE: I think there might be a little bit of reduction, perhaps, in the tenant's benefit insofar as the solar. Solar hot water. But there will be then really a benefit to the common charges of the solar voltaic. So not a very real substantial reduction, but there is some.

MR. WARREN: Okay, so the --

MR. KUNZE: I have Lillian Lew-Hailer of the borrower.

Did I miss anything, Lillian, in that regard?

MS. LEW-HAILER: No, I would say that most of the fixture-related energy efficiency matters that we're taking benefit of the tenants. So, for example, we're taking heat lamps out of the bathrooms and we're replacing them with energy-efficient fans. That's just going to be less on the tenant's utility bill.

The common measure -- so that the photovoltaic will be related to the common light load, we are increasing some of the lighting on the site to provide better security, so there's a little bit of a balance there. And then where we anticipate greater savings is with the solar thermal system, to augment the central hot-water system, boilers that are in each building. So we haven't really quantified what we think the savings will be. That's something that we usually do, post. But there will be some operating savings to the property.

MR. WARREN: And just one other question, Carr, I think through all of these presentations, and that is the evaluation of seismic risk.

So is there a percentage now that the Agency is looking at as far as an acceptable level of seismic risk?

And maybe it's a question for you, Jim, but…

MR. MORGAN: Yeah, Linn, we offered the opportunity for the borrowers to seek a seismic waiver. And based on the Agency's conditions, that there is a probable maximum loss of 20 percent or less. And out of all the projects, only three sought waivers, and had met our requirements for seismic or for earthquake insurance waiver, so…

But there is a -- we do have our seismic-study requirements that were provided to third-party seismic reviews, and we're able to meet the threshold on some of the projects, not necessarily this one.

But the option was to seek -- if they wanted to seek the waiver, it was incumbent upon them to obtain the seismic study and see if it would meet our requirements of a 20 percent probable maximum loss, or less.

Otherwise, earthquake insurance is continued. These are portfolio deals. They all have earthquake insurance currently. And if they wanted to reduce that operating cost and they chose to seek a waiver, they could. Otherwise, earthquake insurance continues.

MR. WARREN: Okay, thank you.

ACTING CHAIR CAREY: Other questions?

(No response)

ACTING CHAIR CAREY: Well, once again, this is an opportunity for the public to have input on this decision. If there is anyone who would like to make a comment, please indicate so.

(No response)

ACTING CHAIR CAREY: Seeing none, we have Resolution 12-13 in front of us.

MR. HUNTER: I'll move adoption of Resolution 12-13.

ACTING CHAIR CAREY: It's been moved.

MR. GUNNING: Second.

ACTING CHAIR CAREY: And seconded.

Roll call, please.

MS. OJIMA: Thank you.

Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Ms. Boatman Patterson?

MS. BOATMAN PATTERSON: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith?

MR. SMITH: Aye.

MS. OJIMA: Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Aye.

MS. OJIMA: Resolution 12-13 has been approved.

ACTING CHAIR CAREY: Okay, thank you.

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Item 5. Discussion, Recommendation and Possible Action regarding Final Loan Commitment for: 12-052-R/S Vintage at Stonehaven Yorba Linda/Orange

ACTING CHAIR CAREY: We'll move on to Vintage

Stonehaven Apartments in Yorba Linda.

MR. MORGAN: Thank you.

Vintage at Stonehaven in Yorba Linda is a USA Multifamily Development project. It's a 125-unit senior project in Yorba Linda. Acquisition rehab in the amount of $13,650,000, and permanent loan amount of $13,650,000 as well.

The project is located about 1.1 mile north of the Riverside Freeway, Highway 91.

And the amount of approximate rehab is about $25,000 a unit. This project also is implementing energy efficiencies to the tune of about 33 percent in increased energy efficiencies, which equate to a 35 basis-point discount in the interest rate.

Rents here in the northern part of Orange County/Yorba Linda are 42 to 58 percent below market. This project has an 81 percent loan-to-value.

This project, Linn, qualified for a seismic waiver. The probable maximum loss on this was 9 percent.

And there are two corrections to this write-up. The borrower, after we had gone through the analysis of the acquisition rehab area, and in trying to obtain an audit and a good cost certification, has requested, and we agreed, to amend on page 134, that the acquisition rehab period be for an 18-month period in order to be able to complete the construction and to complete the audit and costs in a significant amount of time. And so that would correlate into a 15 and a half year term.

Also, too, on page 138, under the management agent, USA Multifamily Management, that paragraph, "Approximately serves 32" should be "70" projects, and the units of "3,500" should be "10,000." I just wanted to make those corrections for the record.

With regard to the scope of rehab, $1.9 million is to the units in the building. There will be upgraded HVAC, windows, Energy Star appliances, and upgraded electrical and plumbing.

USA will also be the contractor for this project.

And for this project as well, there is limited affordable housing stock. This project -- in this area, there's been two affordable housing project permits issued in the last 25 years, and one of them, which is Vintage at Stonehaven. So definitely a needed commodity in the area.

That concludes my presentation.

MS. BOATMAN PATTERSON: I have a couple questions.

MR. MORGAN: Sure.

MS. BOATMAN PATTERSON: So this is a newer project than we saw for preservation.

So this is about a 15-year-old project.

MR. MORGAN: Yes.

MS. BOATMAN PATTERSON: And it had 15 years of affordability left in it.

MR. MORGAN: Yes.

MS. BOATMAN PATTERSON: And so how much more affordability are you going to get in it? Is it --

MR. MORGAN: Well, just with the tax write-off, it will be 55 years.

MS. BOATMAN PATTERSON: So an additional 55 years above that?

MR. MORGAN: Yes.

MS. BOATMAN PATTERSON: Okay, and when you all underwrite these, the useful life of the rehab that's going into it, do you match the useful life with the terms? Or how do you -- what's the minimum useful life in the rehab that you ask for?

MR. MORGAN: Usually, it's 25 to 30 years, minimum, economic life.

MS. BOATMAN PATTERSON: Okay.

MR. MORGAN: This loan has a balloon payment of 17 years. But usually, we're underwriting full amortization, 25, 30 years of economic life.

MS. BOATMAN PATTERSON: Okay.

ACTING CHAIR CAREY: Other questions? Comments?

(No response)

ACTING CHAIR CAREY: Okay, this is an opportunity for the public to make comment. If there's anyone wishing to comment on this project, please indicate.

(No response)

ACTING CHAIR CAREY: Seeing none, we have Resolution 12-14 before us.

MR. WARREN: I'll move approval, Mr. Chair.

ACTING CHAIR CAREY: Thank you.

MR. HUNTER: I'll second.

ACTING CHAIR CAREY: It's been moved and seconded.

Roll call, please.

MS. OJIMA: Thank you.

Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Ms. Chavis?

MR. CHAVIS: Aye.

MS. OJIMA: Ms. Boatman Patterson?
MS. BOATMAN PATTERSON: Aye.
MS. OJIMA: Mr. Shine?
MR. SHINE: Aye.
MS. OJIMA: Mr. Smith?
MR. SMITH: Aye?
MS. OJIMA: Mr. Warren?
MR. WARREN: Aye.
MS. OJIMA: Mr. Carey?
ACTING CHAIR CAREY: Aye.
MS. OJIMA: Resolution 12-14 has been approved.
ACTING CHAIR CAREY: Thank you.

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Item 5. Discussion, Recommendation, and Possible Action regarding Final Loan Commitment for: 12-053-R/S Vintage at Kendall, San Bernardino/San Bernardino

ACTING CHAIR CAREY: Moving on to Vintage at Kendall apartments in San Bernardino.

MR. MORGAN: Yes, Vintage at Kendall. The same developer, USA Multifamily Properties is the developer.

This loan is a $10,580,000 acq. rehab, again, with the same permanent loan amount.

178-unit senior project in San Bernardino. This project will have a restricted 20 units for MHSA, which is the Mental Health Services Act, which will cover tenants. They'll be reserved for previously homeless or at-risk homeless mentally ill tenants.

This subsidy, the MHSA permanent loan in this project is for $2,339,720.

In the write-up, we have a loan term of 20 years for the MHSA loan. That permanent loan term will be 55 years, to be coterminous with the TCAC regulatory agreement. So there is a correction there.

Also, too, the same corrections that I had in that previous write-up, on page 156. This will be an 18-month construction interest-only, term 15-and-a-half-year permanent loan.

And the same corrections on page 160 with regards to the management agent. 70 market-rate developments representing 10,000 units, and not 3,500. I just want to get those corrections out there.

This one would qualify for a 25 basis-point discount with its 20 percent energy savings. Again, the majority of the rehabilitation, about $23,000 a unit, is to the building and the units, with a significant part in the HVAC upgrade.

This project also, too, has a -- its loan-to-value is 82 percent loan-to-value.

We have reserved for a senior project $500 per unit per year as part of the debt service.

This project, too, also qualified for a seismic waiver.

And for rent levels -- for the MHSA rents, these are rents that are 30 percent of SSI. So for this particular project, it would be $184 a month for those 20 units. And because of that deep subsidy, we had a part of the MHSA program is the Capital Operating Subsidy Reserve, which we've built in at approximately a million dollars, a million dollars-plus, to subsidize those additional service costs.

So if you incorporate those rents compared to market rate, just those rents below are 75 percent below market.

And that concludes my presentation.

I'll show you some pictures. I'm trying to be multi-coordinated, and failing.

ACTING CHAIR CAREY: Great.

Questions?

MR. HUNTER: Are there current vacancies? How are the MHSA --

MR. MORGAN: Yes, they're going to roll. The average vacancy here is 8 to 10 percent. So as they turn over units, they'll reserve those units for the MHSA tenants. And they will only put MHSA tenants in as the vacancies come up.

ACTING CHAIR CAREY: Other questions?

MR. WARREN: Yes. And for this project, who is the service provider to handle the MHSA residents?

Or is there a service plan in place to deal with the at-risk tenants?

MR. MORGAN: Yes, there is. Let me see my write-up.

I thought I had the MHSA -- there is a service provider, I just don't happen to have the name of who is providing that service.

MR. WARREN: Perhaps the borrower can comment.

MR. DINON: Brandon of USA Properties.

The supportive service provider is Agewise Support Services. They work with San Bernardino Department of Behavioral Health to provide specifically senior assistance to the homeless. So they've paired us up with that provider, and we also have our social services provider that will provide services to the entire project. So we will get double coverage of services. And there is also a senior volunteer group, that consists of 11 to 17 seniors in the community that will come out and assist and provide service to those residents as well.

MS. BOATMAN PATTERSON: Is the service plan part of a requirement under the regulatory agreement, that that continue in place that they have a service provider?

MR. DINON: Correct. As part of the MHSA, which is program and application funding.

ACTING CHAIR CAREY: Brandon, could we have your last name for the record?

MR. DINON: Brandon Dinon, D-I-N-O-N.

ACTING CHAIR CAREY: Thank you.

Other questions?

MR. WARREN: Just to be clear, on the financing, so, of the two million plus MHSA, half is approximately for operating subsidy and half is the capital contribution. Is that how it's breaking out, Jim?

MR. MORGAN: It's a permanent loan for $2,339,000 and a capital operating subsidy --

MR. WARREN: On top of that?

MR. MORGAN: Yes.

MR. WARREN: So what's the total MHSA contribution for the project?

MR. MORGAN: About 3.3.

ACTING CHAIR CAREY: Other questions? Comments?

(No response)

ACTING CHAIR CAREY: This is an opportunity for public comment. If anyone in the audience would like to comment on this particular project, please indicate.

(No response)

ACTING CHAIR CAREY: Seeing none, we have Resolution 12-15 before us.

MR. HUNTER: I'll move adoption of 12-15.

MR. GUNNING: Second it.

ACTING CHAIR CAREY: It's been moved and seconded.

Roll call, please.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Ms. Chavis?

MR. CHAVIS: Aye.

MS. OJIMA: Ms. Boatman Patterson?

MS. BOATHMAN PATTERSON: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith?

MR. SMITH: Aye.

MS. OJIMA: Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Aye.

MS. OJIMA: Resolution 12-15 has been approved.

ACTING CHAIR CAREY: Thank you.

--oOo--

Item 5. Discussion, Recommendation and Possible Action regarding Final Loan Commitment for: 12-044-R/S Villa Anaheim, Anaheim/Orange

ACTING CHAIR CAREY: And we will move on to Villa Anaheim apartments in Anaheim.

MR. MORGAN: All right, another senior project. 135-unit senior project in Anaheim, California. Acquisition rehab amount is $11,500,000. The permanent loan is $9 million.

This also has a current loan with Century Housing which will be paid down from $4,755,000 to $909,599.

This project itself was also -- on page 178, is going to be an 18-month, interest-only term for the construction period, and then 15 and a half years for the permanent-loan period.

The project is 100 percent affordable, rents 18 to 40 percent below market.

This project also has a ground lease with the Centralia School District that is built into its operating budget. So the base lease is -- at an annual cost of about $203,000 a year. It has a base lease of $136,000. It's adjusted annually based on the HUD annual adjustment factor and based on a percentage of net cash receipts. So it equates to about $200,000 a year out of operating.

The amount of rehab for this project is $36,000 a unit. The gut rehab of the interior units in the building is about $1.6 million. The building itself is $2.3 million, with about $696,000 for the roof.

There has been some termite infestation, so we have a 15 percent hard-cost contingency to cover whatever testing that's done, and anything that arises.

This project has had approximately about $750 million worth of work the last three years, to upkeep with the termite damage on a going-forward basis.

And with this -- and this project also, too, a 73 percent loan-to-value. $500 per unit per annum on the replacement reserve.

And this one, Linn, also has a seismic waiver.

The relocation is also $282,000 for relocation for tenants.

ACTING CHAIR CAREY: Questions?

MS. BOATMAN PATTERSON: The regulation -- the regulatory term is extended. There was 16 years left. And so is it an additional 16? Or is it going to --

MR. MORGAN: 55.

MS. BOATMAN PATTERSON: 55?

MR. MORGAN: 55, yes.

ACTING CHAIR CAREY: Other questions?

MS. CARROLL: So on the ground lease then, what is the remaining term after the loan payoff?

MR. MORGAN: Yes, it's being rewritten, at least 55 years. It could go up to 90.

As it exists, it has a 90-year loan term. And as it exists, it's the "no later of 30 years or the payoff of the CalHFA loan," which will be taking place.

So they're currently meeting with the board, the school board district. And 55 years is being recommended. But currently, it goes up to 90 years on the current lease. But 55 years is being recommended.

MS. BOATMAN PATTERSON: Okay, so that loan is contingent upon the ground lease going concurrent with that loan?

MR. MORGAN: Yes.

MS. BOATMAN PATTERSON: So that we don't have an issue of the ground lease expiring?

MR. MORGAN: That's right. And we forward it to the developer, to forward to the School District our board write-up and documentation.

Everything seems in place, yes.

ACTING CHAIR CAREY: Other questions?

(No response)

ACTING CHAIR CAREY: This one is a legally nonconforming use, I notice.

Are there risk issues to be taken into account with a project that's a legally nonconforming use? I mean, I would stand typically in that case, if a significant percentage of the project were destroyed, it couldn't be rebuilt.

MR. MORGAN: Yeah. If it's 51 percent of the project, it couldn't be rebuilt.

And, obviously, there is a risk to that. But we haven't really -- we look at that, and at the end of the day, what we have in reserves, insurance coverage -- whatever the resources were to build it. But I don't -- other than going for a conditional use to improve the density, it hasn't been an issue. It doesn't mean it **is** an issue.

ACTING CHAIR CAREY: The other thing I noticed is that the relocation conditions are a little bit different.

And I was puzzled by the -- if a tenant chooses to move out during the work, that they'll have to sign a new lease in order to return.

Am I reading that correctly?

It's on page 180.

MR. MORGAN: I don't think they have to sign a new lease. That's just a --

MS. CAPPIO: There's a representative here.

MR. MORGAN: Oh, Graham.

MR. ESPLEY-JONES: I'm Graham Espley-Jones. I'm the developer.

I think there is an impression, and probably true for older developments, that in every case that scenario would probably be the case, that if a tenant were to move out, they would need to sign a new lease when they moved in with the other developer.

ACTING CHAIR CAREY: Did you say, if they chose to relocate because of the work being done in the unit, they would have to sign a new lease to move back in?

MR. ESPLEY-JONES: Their lease will be in abeyance during the term of the renovation period. Upon move-in to the project, they will be recertified. And during that process, a new lease will be signed.

ACTING CHAIR CAREY: It seems to me as discouraging someone to exercise a right to relocate during the rehabilitation.

MR. ESPLEY-JONES: They will be offered the option to utilize either on-site relocation or off-site relocation. In the event that the off-site relocation is elected -- it's tenant-elective, if they choose to utilize that, that election, the process would be that the tenant would be required to sign a new lease when they reoccupy the project.

MR. GUNNING: Instead of staying.

MR. WARREN: Some clarity here. I had thought, under the Uniform Relocation Act, that nothing would impair their ability to come back --

MR. ESPLEY-JONES: Correct.

MR. WARREN: -- and reoccupy that unit.

And so what you're saying is, there will be a new lease, but let's say a credit check is done and it comes back poor. Would they have the ability then to reoccupy that unit in spite of the credit check situation?

MR. ESPLEY-JONES: Correct.

MR. WARREN: And there's no impairment --

MR. ESPLEY-JONES: There is no impairment --

MR. WARREN: -- is what we're trying to get at.

MR. ESPLEY-JONES: -- to their tenancy, correct.

MR. WARREN: All right. Mr. Chairman, I think that's what the crafters used, "no impairment to return" other than a new lease.

ACTING CHAIR CAREY: Thank you.

Any other questions from the Board?

(No response)

ACTING CHAIR CAREY: This is an opportunity, if anyone in the public would like to comment on this action, please indicate so.

(No response)

ACTING CHAIR CAREY: Seeing none, we have Resolution 12-16 before us.

MR. WARREN: I'll move approval. I'm sorry.

MR. HUNTER: It's somebody else's turn.

I'll second.

MR. WARREN: I apologize, Mr. Chairman. I was a little slow there.

MS. OJIMA: Mr. Warren, and Mr. Hunter is second.

ACTING CHAIR CAREY: Okay, we have a motion and a second.

Roll call, please.

MS. OJIMA: Thank you.

Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Ms. Boatman Patterson?

(No response)

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith?

MR. SMITH: Aye.

MS. OJIMA: Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Aye.

MS. OJIMA: Resolution 12-16 has been approved.

ACTING CHAIR CAREY: It is nice to serve on a board where the height of tension is waiting for a motion to be made.

--o0o--

Item 5. Discussion, Recommendation and Possible Action regarding Final Loan Commitment for: 12-061-R/S Coronado Place, Los Angeles/ Los Angeles

ACTING CHAIR CAREY: And with that, we'll move on to Coronado Place in Los Angeles.

MR. MORGAN: All right, Coronado Place is a 41-unit family project in Los Angeles in the Westlake District of Los Angeles, just right off of Wilshire Boulevard. Just one mile from the 110, the 101, and the 10 freeway.

This project is a 1917, almost over a hundred-year-old building that serves residents at 35 percent area median income and below.

The acq. rehab loan is for $6 million. The permanent loan is for $1.91 million. Part of the proceeds of this loan will pay off a LAHD CDBG loan grant that's matured for $495,000.

Also, too, it's subject to loan assumptions of $180,000 from LAHD, a million dollars -- $1,001,975 of loan assumptions from CRA-LA, and also a seller take-back of $2,209,670.

This also has a 100 percent HCD California Housing Rehabilitation Program - Rental component, CHRP-R. And currently, HCD approval is required to modify the CHRP-R increases and rent levels for Coronado Place.

This process has begun. And, CalHFA, HCD, and the borrower, Deep Green Affordable, are still in discussions and talking about the rent increases and levels. But it is subject to that approval.

This loan had matured with CalHFA on June 1st, 2009. It was a balloon payment that has been allowed to pay for the last three, almost four years, and in desperate need of rehab. So we're able to step in with a preservation loan program and provide over $68,000 a unit. A total of about 2.7 in rehab. Half a million dollars -- almost half a million dollars is for the elevator. Over $320,000 for windows and brick facade to keep up with the historic preservation value and meet City of Los Angeles requirements.

This one also has a hefty hard-cost contingency of about 15 percent of $347,000. It also has received an energy savings due to its -- a discounted interest rate due to its implementation of energy efficiencies, a 25 basis-point discount.

This one has a very good loan-to-value at 37 percent.

The TCAC dollars, the tax credit dollars on this is $1.07. And for this project, as far as the developers, leaving in 77 percent of its deferred fee in the project.

So at the end of the day, this is the deal that sets precedent for what we're here for, for our Preservation Loan Program.

So with that, I'll take questions.

MS. CHAVIS: In terms of the loan that's going to be transferred from CRA-LA to LAHD, where is that in the process? And does the Department of Finance need to approve that loan transfer?

MR. MORGAN: A very good question.

So this loan was set for the Governance Committee on October 29th and set for oversight on November 3rd. The Governance Committee was canceled; thus, not an oversight.

So the new Governance Committee is set for November 29th, with an oversight on December 3rd, five days' notice period with the Department of Finance, then we have clearance.

From our experience with the Department of Finance, and also in talking with LAHD, as long as there's no cash-out, it's just a loan assumption, it tends to go through those five days smoothly, with no objection.

So that does put us up to a barrier -- not a barrier, but very close -- a day or two before funding of our New Issue Bond, and we're aware of that.

So we're asking for if a -- if the Governance meeting is going to be prior to November 29th -- which they're attempting to do -- to please let us see that item.

ACTING CHAIR CAREY: Other questions?

MR. WARREN: Just a comment on the HCD loan, Mr. Chairman.

The timing issue here, is AB 1699 was passed, and it's effective January 1st. The guidelines are not finalized yet. But that said, in anticipation of those being finalized early next year, and take advantage of the legislation, I believe the pro formas have been modified to reflect that, and we're supportive of that. I believe there is an amended resolution to that effect, which would basically say that HCD needs to look at this, or something along those lines.

So just where we're at, you know, we're getting a little ahead of ourselves. But staff will be working on this with CalHFA and resolving this very shortly. So we should be in good shape.

ACTING CHAIR CAREY: And it's all in the family.

MR. WARREN: Yes.

MR. HUNTER: I noted that there's a 30 percent increase in the tenant rents.

Do we have any sense of how that's going to impact the current tenants?

MR. MORGAN: Yes, with a 10 percent increase per year for the next three years, based on unit -- or based on tenant certifications, maybe one tenant would be displaced. Maybe one for income purposes.

ACTING CHAIR CAREY: Other questions or comments?

(No response)

ACTING CHAIR CAREY: There is a revised resolution, which is available in the back of the room. I think all the Board members have it up here.

But before we move to that, if there is anyone in the audience who would like to address this item, please indicate so.

(No response)

ACTING CHAIR CAREY: Seeing none, we have a revised Resolution 12-17.

(No response)

ACTING CHAIR CAREY: Reports?

MR. HUNTER: I'll move adoption of 12-17.

ACTING CHAIR CAREY: Thank you.

MR. GUNNING: Second.

ACTING CHAIR CAREY: And the tension builds.

Thank you.

Roll call, please.

MS. OJIMA: Thank you.

Mr. Gunning?

MR. GUNNING: Aye.
MS. OJIMA: Mr. Hunter?
MR. HUNTER: Aye.
MS. OJIMA: Ms. Carroll?
MS. CARROLL: Aye.
MS. OJIMA: Ms. Chavis?
MS. CHAVIS: Aye.
MS. OJIMA: Ms. Boatman Patterson?
MS. BOATMAN PATTERSON: Aye.
MS. OJIMA: Mr. Shine?
MR. SHINE: Aye.
MS. OJIMA: Mr. Smith?
MR. SMITH: Aye.
MS. OJIMA: Mr. Warren?
MR. WARREN: Aye.
MS. OJIMA: Mr. Carey?
ACTING CHAIR CAREY: Aye.
MS. OJIMA: Resolution 12-17 has been approved.
ACTING CHAIR CAREY: Thank you.

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Item 6. Reports

ACTING CHAIR CAREY: Any particular information to share on the reports?
MS. CAPPIO: Just at the dais, we do have reports on the latest numbers from the KYHC program. We

are getting some traction from the revisions to the principal-reduction portion of that program. And I would be glad, or Di would be glad to address any questions or comments.

ACTING CHAIR CAREY: Questions or comments on the reports?

Yes?

MR. GUNNING: No, I wouldn't mind just an update on *Keeping Your Home*.

MS. CAPPIO: Sure.

ACTING CHAIR CAREY: Sure.

MR. GUNNING: It seems like we're being successful. And I would like to give Di a chance to gloat.

ACTING CHAIR CAREY: Di, would you be willing to give us a brief update on *Keep Your Home*?

MS. RICHARDSON: Good morning, Mr. Chairman, Members.

Things are going very well. You know, I don't have new program changes to announce to you. We made the changes that we talked about at the last meeting.

And, you know, servicer participation is really picking up. I think I've got more than 40 servicers currently participating in the Principal Reduction Program now.

Still really working on the big five. I do have verbal commitments from each of them. The situation with them is, it's a resource issue. They have to request the resources to make the changes to their technology platforms. I have been told that those are in progress and that those are moving along.

I actually was hoping to have Bank of America fully on board before we met today. But I think we're pretty close with them. We're discussing a few little fine points, but I'm confident that that will happen soon.

Chase, Wells, Citi, they're all making very positive noises in talking to us almost every day.

Fannie and Freddie, as you know, came out with their new guidance, and they're being very helpful in working with new servicers and helping them explain how they expect that process to work with their loans, which has been really good. And it's actually been really helpful with us, to help us get some of the second-tier servicers to sign on for the program.

NACA just finished their *Save the Dream* tour here in California. And we've several loans that are currently in our pipeline now from that.

There's a big *Hope Now* event on December 4th. And we'll expect to see another big swell from that.

We've got several marketing -- you know, we've always got several marketing things going on.

I'm going to sort of pat myself on the back, and let you know that we did win an award at the NCHSA conference for our tireless and innovative marketing efforts, you know, leaving no stone unturned.

I'm happy to answer any specific questions that you have.

ACTING CHAIR CAREY: Any questions?

MR. GUNNING: Congratulations.

MS. RICHARDSON: Thank you.

ACTING CHAIR CAREY: Great. Very positive.

One thing I noted in the reports, it looks like a dramatic reduction in REO properties.

MS. CAPPIO: *(Nodding head.)*

ACTING CHAIR CAREY: To what do you attribute that?

MS. CAPPIO: Well, you could give it a couple of spins. But it is one data point that says people are back in the market, investing again. So our inventory is down.

Without those data points being connected in any way, I can't go beyond that. But, yes, it is dramatic. And we're taking it as a sign that people are -- and I'm going to say people, because who knows who is investing? There's various theories about who is investing. But that is a very big change in the last eight months.

And in addition to that, they're all above the appraised value -- or nearly all above the appraised value.

ACTING CHAIR CAREY: Great.

MS. CAPPIO: So people are looking to reinvest in the housing market. A good sign.

ACTING CHAIR CAREY: Yes, having other people own is a good thing.

MS. CAPPIO: Yes, exactly right.

--oOo--

Item 7. Discussion of other Board matters

ACTING CHAIR CAREY: Okay, *Other Board Matters*?

(No response)

--oOo--

Item 8. Public testimony

ACTING CHAIR CAREY: With that, this is an opportunity for anyone in the public to address the Board on a matter that's not on the agenda.

If there is anyone who wishes to do so, please indicate.

(No response)

ACTING CHAIR CAREY: Seeing none, I will

mention that we have $10 parking stickers for anybody parked in the parking lot.

MS. CAPPIO: Just take one.

ACTING CHAIR CAREY: Just take one. They're very tempting.

--o0o--

Item 9. Adjournment

ACTING CHAIR CAREY: And with that, we are adjourned.

(The gavel sounded.)

(The Board of Directors meeting concluded at 11:01 a.m.)

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REPORTER'S CERTIFICATE

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand on the 28th day of November 2012.

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

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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

--o0o--

Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Thursday, January 17, 2013
10:00 a.m. to 1:27 p.m.

--o0o--

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

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A P P E A R A N C E S

Board of Directors Present:

KEN ALEX
Director
Office of Planning and Research
State of California

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing and Redevelopment Agency

WAYNE BELL
for BRIAN KELLY, Acting Undersecretary
Business, Transportation & Housing Agency
State of California

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

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

JANET FALK
Retired:
formerly Vice President of Real Estate Development
Mercy Housing

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

MATTHEW JACOBS
Co-Managing Partner
Bulldog Partners, LLC

JACK SHINE
Chairman
American Beauty Development Co.

A P P E A R A N C E S

Board of Directors Present (continued):

LAURA WHITTALL-SCHERFEE
Deputy Director of Financial Assistance
Department of Housing and Community Development
State of California

--o0o--

Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

KEN GIEBLE
Director of Marketing

TIM HSU
Director of Financing

VICTOR J. JAMES
General Counsel

JAMES S.L. MORGAN
Loan Officer
Acting Chief of Multifamily Programs

JOJO OJIMA
Office of the General Counsel

DI RICHARDSON
Director of Legislation

--o0o--

Public Testimony:

DAVID MADRIZ
California Housing Advocates

DAVID L. MANDEL

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BE IT REMEMBERED that on Thursday, January 17, 2013, commencing at the hour of 10:00 a.m., at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

--o0o--

CHAIRPERON CAREY: I'd like to welcome everybody to the January 17th meeting of the California Housing Finance Agency Board of Directors.

--o0o--

Item 1. Roll Call

CHAIRPERON CAREY: Our first item of business is the roll call.

MS. OJIMA: Thank you.

Ms. Falk.

MS. FALK: Here.

MS. OJIMA: Mr. Gunning.

(No audible response.)

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Present.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Here.

MS. OJIMA: Mr. Bell for Mr. Kelly.

MR. BELL: Here.

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

MS. CARROLL: Here.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Smith.

(No audible response.)

CHAIRPERON CAREY: Ms. Whitall-Scherfee.

MS. WHITTALL-SCHERFEE: Here.

MS. OJIMA: Mr. Alex.

MR. ALEX: Here.

MS. OJIMA: Ms. Matosantos.

(No audible response.)

MS. OJIMA: Ms. Cappio.

MS. CAPPIO: Here.

MS. OJIMA: Mr. Carey.

CHAIRPERON CAREY: Here.

MS. OJIMA: We have a quorum.

CHAIRPERON CAREY: Thank you.

Interesting to note that I think for the first time in our experience -- my experience -- we have a full complement of board members. There are two missing today, but we have a full-appointed board. It's great.

--oOo--

Item 2. Approval of the minutes of the November 13, 2012 Board of Directors meeting

CHAIRPERON CAREY: The second item of business is approval of the minutes of November 13th, and we need a roll call -- we need a motion, thank you.

MR. HUNTER: I move approval.

MS. OJIMA: Thank you.

MR. JACOBS: Now, I was not at the last meeting, but I took a look at the minutes. There's a discussion about Mr. Smith and from Mr. Smith, and he's not identified in the -- in the appearances. Now, I see in the discussion it says he's the head of the Audit Committee, but on the appearances themselves on page 2 he's not listed as an attending board member. So this is just a suggested amendment of the transcript, to include Mr. Smith.

MS. CAPPIO: He was there as a board member.

CHAIRPERON CAREY: Yes.

So with that I need a --

MR. JACOBS: I'm suggesting an amendment to change the transcript on page 2 to add Mr. Smith as a member of the board of directors who was present.

CHAIRPERON CAREY: Then would you like to re-make the motion with that amendment?

MR. HUNTER: I would move approval with the suggested amendment.

CHAIRPERON CAREY: Do we have a second?

MS. CARROLL: Second.

CHAIRPERON CAREY: And a second, all right.

Roll call, please.

MS. OJIMA: Ms. Falk.

MS. FALK: I'll abstain.

MS. OJIMA: Thank you.

Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: I'll -- I should probably abstain. I was at the meeting, but not as a member.

MS. OJIMA: Thank you, Mr. Jacobs.

Mr. Bell.

MR. BELL: Abstain.

MS. OJIMA: Thank you.

Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Aye.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Ms. Whitall-Scherfee.

MS. WHITTALL-SCHERFEE: I will abstain.

MS. OJIMA: Thank you.

Mr. Carey.

CHAIRPERON CAREY: Yes.

MS. OJIMA: We don't have enough votes.

CHAIRPERON CAREY: I think we need one of our abstainers to overcome their reluctance, or we can carry it over.

MS. CAPPIO: Mr. Bell.

CHAIRPERON CAREY: He wasn't here.

MR. BELL: I wasn't here.

MR. JACOBS: I was there, but I wasn't a board member.

MS. CAPPIO: We could carry it over.

CHAIRPERON CAREY: Okay. What we have to -- but for distribution of the minutes and such? No?

Okay. We'll -- we'll carry it over to the next meeting. Another first.

MS. PATTERSON: A full house has it disadvantages.

--o0o--

Item 3. Chairman/Executive Director comments

CHAIRPERON CAREY: Okay. With that we'll move on to Chairman/Executive Director comments.

The first thing I'd liked to do is welcome our two new board members, Matt Jacobs and Janet Falk, and really welcome and appreciate your enthusiasm, particularly the knowledge and experience you bring to us as members of the team.

And with that, I'll turn it over to our executive director. I know there's changes and stuff to talk about.

MS. CAPPIO: Yes.

Good morning. And I echo welcoming our two new board members. I know it was a long process, but I'm really pleased to have you here as well.

There's a couple of news items. One, Genworth, our mortgage insurance carrier, was downgraded one notch on the credit rating scale. That has just a slight implication for us and one that we believe we can manage, but I just wanted to report. That news just came out last -- yesterday or the day before.

The Governor has indicated in discussions with me that he would like a single point of leadership for housing issues during the next few months, and that would have most direct benefit for the changes that are -- that we are trying to make in terms of collaboration and alignment with the housing functions between CalHFA and HCD.

So given that -- that change, I will be working with HCD during the next few months to figure out our plan, which remains the same in terms of just keeping both entities separate in terms of the tools and knowledge and experience they bring to the table and obviously CalHFA's need to keep its financial wherewithal somewhat independent because of the work we do in the capital and bond markets and our separate credit rating. So I will be a busy person, but I welcome the challenge and believe that we can successfully complete the work under the Governor's reorganization plan.

And finally, I may have mentioned at the last meeting that we have been able to obtain some federal assistance through the Health and Human Services division of the -- of the federal government, under the auspices of a group called SAMHSA. And we have begun our work to reduce chronic homelessness in California through a policy academy. This will be essentially technical assistance and will include on-site visits and resources that will be brought to bear so that we can have the advantages of improving services that we now have in California but maybe want to align differently or respond to differently.

We had our first phone call today. It's a good group of people coming from a wide variety of backgrounds and -- and both on a state level and --

provider as well as county and local provider. I'm looking forward to the -- to that challenge as well. It's a combination of CalHFA and HCD folks, and I look forward to bringing you the results of our work in the next few months.

It will take likely six to nine months, and there will be a couple of on-site meetings in Sacramento along with what they call a virtual policy academy at the end. I'm not quite sure what that means, but I'm trying to focus and figure out the best use of their resources in terms of how the State can intervene in a positive way.

With that, I conclude my comments.

CHAIRPERON CAREY: Thank you.

Questions? Comments? Ms. Falk.

MS. FALK: Yes. Could you just -- having worked with both HCD and CalHFA and being new to the Board, could you just explain a little bit more about what's going to happen with the two agencies. Are you also serving as executive director of HCD or what?

MS. CAPPIO: No, but I'm serving as adviser. There is a designated point of authority through the chief deputy director in the HCD while we figure out what the leadership structure will be.

During our work in the last few months under the Governor's reorganization plan, we focused on three major areas that we could collaborate on and align ourselves to deliver better services to the State.

One is policy, and that is essentially because from HCD's perspective, they're experts in policy. They are research -- their research arm is through the housing element, in addition to any number of tools they bring to the table through their research. And CalHFA, I would say, is policy light. We have -- the fiscal policy is okay, but we could really benefit from more robust policy discussions on lending tools and other programs.

The second piece is asset management. We both have asset management functions, and I believe that the 90,000-or-so units that we have under our collective management could be organized differently and actually monitored differently, looked at differently, with regard to risk and viability of preservation and even increasing affordable -- the number of affordable units that we both bring to the table. Obviously HCD has grants and loans and subsidies, and we bring the loan piece to the table.

And finally, with regard to coordinating and aligning how we provide financial assistance to both programs and projects.

Those are the three areas, and we will be focusing on that in the next couple of months.

We also as under the Governor's reorganization plan have -- are going to move because BTH is going to be sort of exploded. Transportation will become its own agency, and business and housing functions will move to the Department of Consumer Services. So we have to be in as strong a position as possible when that move takes place.

MS. FALK: Thank you.

MS. CAPPIO: Thanks.

CHAIRPERON CAREY: Other questions or comments?

I just -- I'd just say that from the policy point of view, the roles that the two agencies have seemed so different to me over the years. And -- and HCD's role as a -- as a sort of, you know, leadership role in housing and land use and other policy areas has been very key throughout the state. And it's a different perspective from CalHFA. I'd like to -- it's a little hard for me to imagine how we keep both of those types of policy arenas on the agenda with a narrower focus.

MS. CAPPIO: Point well-taken.

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Item 4. Discussion, recommendation and possible action

regarding the adoption of a resolution extending the authorization of the Agency's multifamily bond indentures, the issuance of multifamily bonds short term credit facilities for multifamily purposed, and related financial agreements and contracts for service (Resolution 13-01)

CHAIRPERON CAREY: Okay. If there are no other questions or comments, with that, we will move on to item 4, which is related to multi-family bond indentures. Mr. Hsu.

MR. HSU: I hope this is -- good morning, Mr. Chairman, and good morning, Members of the Board. Welcome, new Board members. I'm hoping that this will be less controversial than the -- authorizing the minutes.

Customarily in January we bring to the Board financing resolutions for our financing activities for the remainder of the year. Two things came up this year to change this custom this year. One is we do have four new Board members that were introduced, appointed, in the last six months, so there was a thought that perhaps doing some orientation at the January Board meeting prior to authorizing financing resolutions could provide context for our new Board members and could be a useful thing to do.

And the other thing is that we do have for our senior staff members a strategic planning session set up this month and next month, and we thought that some of the discussions happening there could also impact some of the sustenance of the financing resolutions. And those two things together sort of brought to the -- brought together the idea that perhaps we should do the financing resolutions in March.

However, we do have two multi-family projects that couldn't make it onto the train for our December closings, the risk-share deal that we did back in December. There were two projects that had a few complications that didn't quite make it. And it's quite possible those two transactions will end up being conduit issuances in the first quarter. And if they do end up being conduit issuances in the first quarter, without an extension -- which is what's being considered in front of the Board right now -- without an extension of the financing resolution that the Board passed last year, we wouldn't be able to do these two conduit transactions.

So what's in front of the Board for consideration is the idea that the multi-family financing resolutions that the Board passed in 2012 be extended 30 days beyond the next meeting in which there's a quorum.

That concludes my remarks.

CHAIRPERON CAREY: Are there questions or comments before we open this up for public comment?

MR. BELL: I have one question. Tim, how certain are you that this is -- you're going to need the -- the conduit financing? Do you think it's going to happen before April 7th?

MR. HSU: My understanding is that it's possible, yes.

MR. BELL: Okay.

CHAIRPERON CAREY: With that, this is an opportunity for the public to make comments on this issue before the Board takes action. If there's anyone who would like to comment, please indicate so.

Seeing none, then we would take a motion from the Board.

MR. SHINE: Move.

CHAIRPERON CAREY: Is there a second?

MR. HUNTER: I'll second.

CHAIRPERON CAREY: Thank you.

We have a motion and a second. Roll call, please.

MS. OJIMA: Thank you.

Ms. Falk.

MS. FALK: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Aye.

MS. OJIMA: Mr. Bell.

MR. BELL: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Aye.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Ms. Whittall-Scherfee.

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Carey.

CHAIRPERON CAREY: Aye.

MS. OJIMA: Resolution 13-01 has been approved.

CHAIRPERON CAREY: Thank you.

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Item 6. Informational workshop discussing Board governance and overview of CalHFA's organizational structure and business operations

CHAIRPERON CAREY: And with the Board's indulgence, we'd like to shift the agenda order just slightly and move on to item 6 now, and then we'll defer item 5 until after that presentation.

And I believe, Mr. Giebel, Ken, you're starting this out.

MS. CAPPIO: No, Tim's going to present this item.

MR. HSU: No, since, I'm here --

CHAIRPERON CAREY: I'm misreading my notes.

MR. HSU: I learned a few things about the Board and Board members two presentations ago. One thing is that people seem to like sports analogies, especially when I use them because I don't watch sports so I kind of tinker with them for my own purpose, and it's probably not exactly right. So as such I thought that -- I know this is the first quarter of this orientation, but I'm going go for a Hail Mary here and -- you know, why save the best for last?

And I think that my Hail Mary is that I really think that the question that the Board and Board members really want an answer to is are we going to lend again? And I think that the answer to that question will provide a very important context for the rest of the presentation, because if we lend versus if we don't lend, I think you will look at what you have to do and your responsibilities very differently.

So I'd like to start off by suggesting that my presentation, which is mostly about finance, is going to be all wrapped around answering this question: Are we going to lend again in 2013?

In order to do that, I first need to give you some high-level explanation of the capital structure for the Agency. At a very, very high 30,000-feet level, the Agency really has three entities. I was planning on getting up so I could show you the charts, but as it turns out, the charts are actually farther away from you than me sitting over here, so I'm going to sit instead.

So on the very -- on the left-hand side of the chart is the contract administration, and these are non-Agency funds. They are Prop 1C money. These are State issue money in which the Agency acts as administrator. So the moneys in that pot are such as the CHDAP money that we have or the MHSA money that we have. So with respect to the lending question, they are not directly pertinent, but when we do lend, they tend to become complementary to the lending programs. We administer them, and people tend to think it's convenient for them to get a loan from us at the same time they do these other things.

And on the left-hand side is the darker orange box, and in this box here is the single-family indenture. This is the indenture that has been active for many, many years, for 20-some-odd years, in which we have issued bonds to finance all of our single-family activities for quite some time. And you can see why this particular box here is visible from 30,000 feet because it has about $3 billion of bonds in there. So to provide some context, before the financial crisis, this box here had $6 billion of bonds. So it has diminished quite a bit.

And in the middle of this umbrella is the core of CalHFA, is the blue box, and this is the general obligation of the Agency. And to point out a couple things here, you can see that there's an operating account underneath this blue box here, and this is how we keep the lights on, we pay for running Board meetings, for example.

And that particular box is under another box that I group together, which is referred to as non-bond assets. And these non-bond assets have at the moment about $480 million of assets, of which $300 million are in liquid assets. And this idea of having liquid assets is a really important one, which we'll come back to in a couple of slides.

Also, under this blue box is -- on the very left-hand of this blue box is something called Multi-Family III. And this is the indenture in which we financed all of the multi-family lending activities for the last ten to 12 years or so.

So on a high level, these are the three -- three players, if you will, under the CalHFA family.

And also at a high level, what are -- what are the risks? Because in order to answer the lending question, I need to discuss capital structure and show you where the risks are and also show you why the lending question is related to the risk factor question. And at a high level, there are really three -- there are four risks that keeps me up at night.

The first one here is on the bottom right-hand corner. The first one is the single-family loan losses. And the Agency's conventionally-insured portfolio has realized a hundred million dollars of losses in the last three or four years. I was doing a quick tally of what these numbers amount to and -- before this morning, and they kind of took my breath away too because I don't always step back and think about these things.

If we had not gotten some of the mortgage insurances that we had to enhance the credit of that orange box, the unenhanced losses of the loans that are in there are somewhere around 700 to 800 million dollars. But because we do have mortgage insurance to protect some of the losses that we have in that indenture, that loss is lowered down to about $170 million.

That orange box, you might argue, really is the source of the recent travails for the Agency. You might argue that without those loan losses in the orange box, the second and third and fourth risks wouldn't really be around. They would not be where they are today.

Inside this orange box we have variable-rate bonds that we issued over the course of the last ten years to finance some of the lending activities. The reason why it's important to point that out -- at the moment we have about $1.1 billion of that.

The reason why it's important to point that out is these variable-rate bonds have interest rate risk. If we don't hedge that interest rate risk, it's quite possible that these bonds, which are a very low rate now, one day could pay 10 percent or 12 percent. And it's hard to lend when you are lending a fixed-rate mortgage.

However, for reasons I won't go into today, the interest rate swaps that were entered into to hedge these variable-rate bonds were not entered into in the orange box. They were entered into in the blue box. So because rate -- short-term rates are so low today, periodically the blue box makes advance payments on behalf of the orange box to our counterparties on Wall Street. And after it makes these advance payments, it gets a reimbursement from this orange box. We refer to this as reimbursement risk, which is the second risk factor.

And the third risk is that because our credit ratings have gotten downgraded over the last couple of years, the last few years, our rating on the blue box, which is our general obligation, is also at a level in which we need to post collateral to our counterparties for the mark-to-markets on the swaps. So this is the third risk factor, which we refer to as the collateral postings.

And last but not least is that you also notice under the blue box where we do have that multi-family indenture which had financed our lending activities in the last ten years, we do also have variable-rate bonds underneath there, and both of these are at the same moment being backed by a letter of credit that we refer to as TCLP, which is being provided by the GSEs and the

U.S. Treasury. And the fourth risk factor is that that particular letter of credit has an expiration date of the end of 2015, and we need to find a way to replace them by the end of 2015.

And you might recall that back in September I came to the Board for authority to extend TCLP, and we did successfully extend it. So prior to the extension, the expiration date was actually a couple weeks ago, but we successfully did extend them to the end of 2015. But, nonetheless, we need to find a way to replace them, replace these, by the end of 2015.

I'm going to go into each of these risk factors with a little bit more detail and also discuss some of the risk mitigants that we've had for each of them so that I'm not presenting a risk and scaring you without telling you what we're doing or what are some of the inherent risk mitigants that we might have.

So the first risk factor we talked about is the single-family loan losses. On the chart here, the blue -- the blue is our experience of our total delinquencies in FHA loans. And the red is the composite experience of our conventional loans. I checked these -- I checked these that -- this experience versus the mortgage bankers -- MBA data for California this morning. For better or worse, we don't look as good as some of those indices because our borrowers are not fitting exactly in the same profile as some of the averages. For example, we are -- for many years in our single-family program, we are primarily a first-time homebuyer program.

So you can tell that the -- our delinquency history kind of crescendoed up in that sort of 2008, 2009, 2010 vintage. And around the early part of 2010, it kind of hit its peak, and it's been sort of a steadily declining trend ever since then. And then but most recently, too, you can tell we kind of have sort of hit a plateau in which things are not really declining as fast as they used to. But they're still at a fairly high, elevated level, which is, as I mentioned, higher than some of the comparable or incomparable market indices that you'll probably hear sometimes.

And these loan losses -- these high delinquency rates have resulted in loan losses, and the loan losses have precipitated credit rating downgrades on our orange box and also on our blue box, our HMRB and our GO.

So as I mentioned in the prior slide, our delinquency ratio hits its peak in the early part of 2010. If you look at the right-hand side here, you'll see that in April of 2010, our HMRB rating, the orange box rating, was actually downgraded by Moody's three notches, and it was downgraded also in April of 2010 by S&P by two notches. So as they see delinquency rates rising and peaking, we were downgraded by multiple notches by the rating agencies.

And you can see also that this also has a knock-on effect on the GO, which had similar rating downgrades scheduled, but perhaps not as dramatic because it doesn't bear directly on the single-family risks. But as we talked about earlier, there's this reimbursement risk. And also this HRMR is a special obligation. It does -- cannot directly tap into the resources in the blue box. It is, nonetheless, under the big umbrella of CalHFA. So if that does poorly, they sort of look at the GO less --less kindly.

As Claudia mentioned earlier in her opening remarks, Genworth, how does Genworth play into the picture? This -- when we first set up this orange box, it had three credit enhancement layers. As I mentioned earlier, if we just look at the naked overall losses that we've had from these loan losses, it wouldn't -- it's -- it's approximately 7- to 800 million dollars. But because we've had these credit enhancement layers, that number that's being suffered by the orange box is closer to about $170 million.

Having said that, some of these credit enhancements have been exhausted over the last couple years. So in substance, the only layer that's left is Genworth. And Genworth is -- that's why I put it right underneath the orange box for the moment. Genworth was downgraded yesterday by one notch. I think at some point I showed the Board what we thought the repercussion would be if there's a one-notch downgrade.

So in short, the credit -- now the credit we get from Genworth in dollars would go down by about $20 million -- that's our estimate -- when -- after it had got downgraded by one notch. 20 million -- let me just make sure I put that in context. To be sure, the amount -- we haven't had a recision from Genworth for two years now, none in 2010 and none in 2011. And that means when we submit a claim, they have never gotten denied. So they are paying. They are paying a hundred percent on the dollar.

However, under the rating stresses that the rating agencies use to rate entries such as ourselves, they hair-cut some of these credits based on sort of the outlook of these entities. So what we're suggesting is that in their stress loan losses in which some amount of this $382 million would actually be applied, we're losing $20 million of that credit.

So I'm going to move on if there are no questions. The other thing --

CHAIRPERON CAREY: Are there any questions?

MR. HSU: I got sort of a couple --

CHAIRPERON CAREY: Yeah.

MS. PATTERSON: So I'm trying to figure out how that 20 million affects you're saying a hundred percent on the dollar.

MR. HSU: Okay.

MS. PATTERSON: Does that mean that they're going to -- the risk is going to be -- that we're now going to get less than a hundred percent?

MR. HSU: There's a -- there's a very strange parallel universe between what's actually happening and how they assess us. So -- so for example, let's just say that the risk-in-force under Genworth that's 380, just for discussion purposes let's assume is the 400. So what that number means is that if every single loan Genworth insures goes into default and it actually incurs the maximum amount of their insurance, it would result in about $380 million.

Now, even the rating agencies don't think that every single loan is going to go to default. It's like they're sort of generally half -- the glass is half full kind outlook. So suppose that -- and this is roughly in line with our estimates. Suppose that they felt that half of that risk would actually be into play, meaning that it would actually result in real claims. And they have a black box that sort of projects the amount of losses that will come in the door. Suppose half of that, so suppose $200 million.

What we're saying is that out of $200 million that they think that we need from Genworth, there now would be $20 million less from that ability to pay us.

MS. PATTERSON: The impact of that to us is a risk of being downgraded?

MR. HSU: That's -- that's -- that's most definitely the question. We at the moment don't have a good read on that because we haven't gotten the most recent loan losses from Moody's. However, we think that with a $20-million decline -- I think I previously represented to the Board and I stick by it -- is that we have a fighting chance of staying where we are. Or if we were downgraded one notch, we would still be investment grade.

MR. JACOBS: Is the Genworth policies, are those specific to each loan, or is it pool-wide? And is there a period of insurance? Is it unlimited?

MR. HSU: Spoken like someone who knows

insurance. Part of the reason why the -- despite the fact that these numbers seem so large, on a relative basis, these loans still perform better than their other portfolios that Genworth might have. Each of these loans were done on a flow basis, meaning that they were underwritten on a loan-by-loan basis, and their insurance certificate is on a loan-by-loan basis. We never did anything with Genworth on a bulk basis or a pool basis.

MR. JACOBS: Thank you.

CHAIRPERON CAREY: So -- so basically it reduces the amount that we can consider as -- I mean, it's not a real loss, but it's simply we can't count on that full amount and therefore that affects our potential credit rating.

MR. HSU: I'll just correct a few words there. They won't consider those $20 million when they look at us.

CHAIRPERON CAREY: Right.

MR. HSU: We still get every cent on the dollar from them.

CHAIRPERON CAREY: Right.

MR. HSU: So it's this parallel universe of how they look at us and how -- so, in other words, I -- we think about this, and we talk about this all the time.

Every day that goes by in which we get a claim honored by Genworth, we win because we got hundred cents on a dollar versus getting a haircut of -- as it turns out of this $200 million. At the moment, where they are already is already non-investment grade, so of the $200 million, prior to yesterday we were getting 45 percent credit, which is about 90 million. So now with one notch downgrade, we're going to get 35 percent credit, which means it goes down to 70. So we're losing incrementally that $20 million on how they assess us, not on real things that happen in the real life.

MS. CAPPIO: Tim, just to make sure, because probably we need a sports analogy, a walk still counts as an on-base percentage.

MR. HSU: That's right.

MS. CAPPIO: You still get on base.

MR. HSU: Yes. Spoken like an A's fan. That's right. That's the philosophy, home base percentage matter and time matter. And every day that goes by in which we get one more claim honored, it's cash that comes in that's at a higher percentage than how they look at us.

MR. BELL: Is there any risk of losing the Genworth coverage?

MR. HSU: The recision -- as I mentioned

earlier, that Genworth's key strategy of defending its capital base, just like we're trying to defend our capital base, is to ramp up recisions, meaning that they -- as Matt was saying, they may have gone into certain deals during the height of the market that they came in using, let's say the bulk channel or the pool channel. And when they did those kinds of transactions, they're going back to those kind of transactions and getting -- they're basically nitpicking on reps and warranties, and they're trying to deny the claims.

So the strategy to defend the capital is by ramping up recision, declining claims. As I mentioned, we haven't gotten any recisions in 2010 and 2011.

MR. JACOBS: Actually, one more. Are they backstopped by a reinsurer, or are they the reinsurer?

MR. HSU: They -- I don't know the answer to that. But in -- in -- the reason why Genworth has -- it is still the prettiest partner on the dance floor is that it has a parent company that's in the business that has not really gotten impacted by the financial crisis. And that is -- the parent company is life insurance, and the life insurance business is one that actually carries the -- the moniker -- the subsidiary is just a sub. So the MI is the sub. And the parent company has been feeding capital to the MI sub, and that's part of the reason why it's been able to stay as -- as petty as it is.

MR. JACOBS: One final insurance question. So the term on these policies, though, is it a five-year term? Is it the life of the loan term?

MR. HSU: Again, spoken like one who knows insurance. One of the things that we're dealing with right now is that these reinsurance treaties have a ten-year expiration date. Okay.

So the first book of business that is going to expire expired at the end of last year. So that was the 2003 book of business. So that book of business is both small and it performs relatively well.

However, if -- in a couple years as we go into 2015 and 2016, we're going to start seeing expirations on books of business that are basically at the height of the real estate market, and it would be meaningful if we have still a lot of loans that go into default after expiration for those books of business.

MS. PATTERSON: So are we looking at that portfolio now that the insurance has not yet expired to see if they're performing and if they're at risk of default?

MR. HSU: Well, what we're doing is, in large part, connecting it to this green circle on the right-hand side, is what we're doing is we're trying to -- to the degree that some of these borrowers have hardship, we're trying to channel them into our loan modification programs and tie into the Keep Your Home money -- Di, heads up -- and trying to support them that way.

But if they're performing okay today and -- but they're underwater, there's not much -- and there's no hardship, there's not much we can do at the moment. We have entered in discussions with Genworth about some of these issues, and they're ongoing.

CHAIRPERON CAREY: Okay.

MR. HSU: Should I stop? Am I done?

Okay. As I mentioned, the green box is really not a credit enhancement. It really is just a loss mitigation strategy, and this chart here, what you're seeing in the red, the red that looks like steps, those are the number of loan modifications we've done to date. So you can see that it kind of started ramping up in 2010, and to date we've done about 900 modifications.

You can also see the amount of money that we're getting from Keep Your Home is also ramping up. So to date we've gotten -- we've received inside that orange box about $9 million of assistance from Keep Your Home. There are probably loans in the pipeline that are -- that will be receiving assistance from Keep Your Home, but these are the actual dollars that we received by the orange box.

MR. BELL: Do you have any statistics yet on -- on defaults once a home loan is modified? Have you been fairly good as far as doing modification without re-defaults?

MR. HSU: My recollection is that the redefault rate of loans that are being modified is about 40 percent or so. So in other words, if we -- said another way, if we modify a hundred loans, 60 of them are cured. That's a ballpark number.

So the risk factor No. 2, this reimbursement risk from the orange box to the blue box. This is a real risk, indeed. But I -- what I'm trying to illustrate on this chart is that the magnitude of that risk is declining quite rapidly over the next couple years.

And -- and the risk factor two and three, as I mentioned earlier, these two risk factors are really created because the single-family loan losses precipitated credit downgrades. So I refer to these as sort of like knock-on risks. These came up because something else happened.

But with respect to these risks, I'm somewhat sanguine about the fact that these amounts are declining fairly rapidly. So that risk is there, but there's a natural risk mitigation happening with the passage of time.

And the risk factor No. 3 is that -- again, this is sort of one of these knock-on risk factors. Risk factor No. 3 is that we do -- we are posting collateral to our counterparties right now, and under that non-bond asset box in which we have $480 million of assets of which only $300 million of them are liquid -- these are -- these are cash or securities that our counterparties will accept. So of that $300 million, roughly speaking -- again ballpark number, one in three of them -- one out of three dollars are at the moment being held by our counterparties in our name. They're our money, but they're holding on to them. If we were to get downgraded by one notch, about two out of the three dollars would be held by the counterparties, out of that $300 million.

Our risk mitigation strategy here is that when we first entered into these swaps, we purchased options to terminate these swaps in the future at no cost. And we've been exercising these options very aggressively over the last three years so got rid of the swaps as soon -- as fast as we could.

So what you're looking at here in green -- in the green column what you're looking at it is the amortization of this collateral posting risk if it were to stay in A minus. And in the yellow what you're looking at is the amortization of this risk if it were to be downgraded by one notch.

And the risk factor No. 4 -- the risk factor No. 4 is replacing this TCLP, which is the backstop for the variable-rate bonds. And in short, this is a program that Treasury issued back in 2009 to help HFAs that had variable-rate bonds and they couldn't find other letters of credits to support the variable-rate bonds. We still need these TCLP and letter of credits to support the financial well-being of the Agency. As I mentioned back in September, about three or four months ago, we did extend this out to 2015, so we do have three years to figure this out.

One of the things I will point out is that when we first entered into this program back in 2009, the TCLP balance was 3.5 billion. And after the redemptions were made on February 1st, 2013, it would be down to $1.5 billion. So over three years we have taken down $2 billion.

So in order to replace this TCLP, this letter of credit, we need to stabilize our ratings at a decent level, and we need to also winnow this balance down to a sizeable amount because that market, that letter of credit market, has shrunk a lot too because of the various things out there like new regulatory requirements, et cetera, et cetera. That market has shrunk, and we need to be able to if -- if we want to go into that market to get private banks to replace these facilities, we need to get this balance to be commensurate with the size of that alternate market.

CHAIRPERON CAREY: Ms. Falk.

MS. FALK: I see your last statement here is that to replace it we need to get the amount down to something that can be absorbed by the private market. How much is that?

MR. HSU: That's a good question.

MS. FALK: If we're at one and a half, how much does it have to go down?

MR. HSU: Well, that's a good question. I think that recently we have visits from the banks who have tried to build up business in this space, and I mentioned to her that, well, what we're thinking is at some point when this balance is manageable, then we can have a discussion about what you might do for us, and she totally agreed.

My goal is that if that number is in the half a billion dollar range, I think that we have a very, very good chance of getting a consortium, a syndicate of folks, to come in and to provide liquidity or a letter of credit so that we can replace this TCLP.

MS. CARROLL: Tim, is that because they would have less risk? Because right now wouldn't they look at their risk of actually getting called upon if we continue to experience the losses in the home mortgage revenue bond indenture? Wouldn't they be afraid that we'd go into default and they'd get stuck with the bonds? Has that been a fear that they would have?

MR. HSU: That is definitely a fear they would have, and I'm not exactly sure what other things they will try to extract from us in providing that. But there could be other ways in which the blue box could come into play to credit enhance.

MS. CARROLL: Right.

MR. HSU: But, I mean, my feeling is that as we stand today, it's very difficult to engage in a conversation when I flash that $1.5 billion.

MR. JACOBS: Are these loans that can be securitized? Are they stable loans to at least produce?

MR. HSU: A very good question. What I tried to do here was the worst scenario approach. I'm trying to give you the highlights and trying to rush through this in a time which you can appreciate what's happening but I didn't go over every single at bat. However, since you asked, I'll give you the -- I'll give you the 20 pitch at bat.

We have securitized FHA loans inside that orange box. I think we did about 300, 350 million dollars of securitizations, and then with the proceeds we -- with the securities being sold at a premium and the proceeds, we have taken to redeem the RDOs.

In the multi-family space, we did securitize some of our better-performing projects, took out MBSs, and we did about $90-some-odd million. And we also effectively monetized them and also used them to redeem RDOs.

So when we have the opportunity to do that, we have done so, but part of the reason why we're where we are today is that these conventionally uninsured whole loans in the single-family space. They are not securitizeable.

MS. PATTERSON: And that is the $1.5 billion.

MR. HSU: The $1.5 billion is the backstop on the bonds. The -- I don't have this right in front of me, but we have about -- I think it was about a billion or so of conventionally insured loans that are still experiencing fairly high delinquency rates.

MS. PATTERSON: You said a billion. So I'm talking about that orange box, the single-family portfolio that is not being -- that has insurance but the insurance may expire, what's that value?

MR. HSU: I think that if you look at -- let me see. Could you look at this report, Attachment 4. That's called Homeownership Loan Portfolio Update. You'll see that the -- the conventionally insured loans, that at this point in time --

CHAIRPERON CAREY: Tim. Tim, hold on just a second. Let folks get it.

MS. CAPPIO: What number is it on the agenda? Is it --

MR. HSU: It's one of the attachment reports that we file every time there's a Board meeting. That one. Okay.

So what you're looking at here on this chart is that we're looking at is balances here. You'll see that we have about a billion dollars of FHA loans on page 1 of 6 at the top. Okay? So we have about a billion dollars in FHA loans. That's really not where the problems are because FHA is making full claim payments, and it's not a problem. So all the govies, what's affectionately referred to as the govies, the FHAs, VAs and RHS, they're doing relatively well in terms of the credit enhancement layer.

Where we're talking about Genworth comes into play is that $1.3 billion, that 1.3 you see right next to CalHFA. MI fund 5,259 loans at $1.3 billion. That -- that's where we have counterparty risk to Genworth because they are reinsuring losses on that -- that segment of our portfolio.

MS. PATTERSON: So this is what you want to shore up to make everything else better? If you -- if we --

MR. HSU: That's the home run, that's right.

MS. PATTERSON: So if I came in here with $1.3 billion right now, we'd be good.

MR. HSU: I don't need that much, actually. A couple hundred million dollars would do.

MS. PATTERSON: Right.

MR. HSU: Because, I mean, it's not as if $1.3 billion is worth nothing. I'm -- I am --

MS. PATTERSON: Because not a hundred percent are going to default.

MR. HSU: Plus when they do default, it's not like they go from a hundred thousand, they owe a hundred dollars it goes to zero. Right? So -- so -- so -- so it's not -- it's not that much in terms of what I need to shore up, not 1.3. I'm not saying that it's a hundred dollars, but it's not 1.3 billion.

MS. PATTERSON: Right. And you have a plan.

MR. HSU: And you have cash?

(Laughter.)

MS. PATTERSON: No, but I have strategy.

MR. HSU: Well, we should be talking.

MS. PATTERSON: No, because I'm -- I'm thinking if that's where the problem is and you know that's where we should probably be focusing to figure out how do we shore up these walls, selling the portfolio, knowing what's at risk, what's not at risk, modifying those that we can, not spending a lot of cash and staff resources modifying what we know we can't, I mean, there's just strategy there that I think would -- you might be doing that, I just don't know because we're new. And if that's the case, I'd like to know what that strategy is.

MR. HSU: We'll come back to that next time, how's that? Okay?

So finally back to the lending question. I sort of took you down this journey, but we'll come back to the lending question. To lend, we actually need to borrow. It's -- to prove again that bankers all know Shakespeare, that neither a borrower nor a lender be, but, you know, we're a lending institution. We need to borrow in order to lend, especially with the volume. As you can see under that blue box in which we have non-bond assets, we do you have some money, so if you want to lend out of that, we can. But you'll be limited by the amount of money that's there.

So in order to lend, we need to borrow. And traditionally we have borrowed from the municipal market, a market that Katie knows well. And that market, too, has various segments. There is the general obligation segment, and there's a housing segment. And the housing segment has come back, and there have been some innovations in that space to lower the cost of funds. So to have a functioning capital market is really sort of the first hurdle.

And the second hurdle then would be that, well, if we were to issue bonds, how would we issue those bonds? And because our general obligation, that blue box that we've been talking about, now has been under a lot of credit rating pressure, we would have to create what's referred to as a special obligation, much -- real special obligation up there like that orange box -- real special obligation in which we would say we created it, we issued a bond, we put loans in there, but it really has no recourse to the blue box.

But in order to do that, these bond issuances require what I refer to as seed money. They need contributions for the cost issuance, for example, and also contributions for reserves, if needed, for the bond issuances. And lending also requires capital in terms of capital set-aside.

So a couple meetings ago, Katie asked me back in December, how is that -- how does that impact the capital of the Agency? So, for example, that $70 million multi-family risk-share deal that we did, it required about $2.2 million of cash contribution from the Agency and also required about $5 million of capital set-aside for the lending component of making those loans. These are risk-share -- it's a risk-share program in which we share 50 percent of the risk with HUD. So in all, that's about a 10 percent capital use in order to make that program happen.

And where does this money come from? Well, here is where -- this is the reason why I thought that this is a good way to explain all this, is that -- taking you down a journey of showing you where the risks are is that the money comes from that same blue box of non-bond assets that's meeting all these other obligations and meeting -- and meeting all these other risks.

It has -- if someone were to just look at this and you have $300 million in cash, why can't you lend? Why can't you -- why can't you buy some capital? Why can't you have capital set-asides? Because it is also the same pot of money that's addressing all these other risks.

But having said that, yes, we can. We can lend. I think that some of the cloud that has hovered over the blue box, some of you, some of the older board members, might recall that we had -- even this -- I know what I presented today is very complicated, but it was even more complicated three years ago. There were more things that could have happened to that blue box that have now been addressed, and those risks have gone away.

And, Tia, if you want to know them for extra credit, we can go through them, but they're not relevant today.

MS. PATTERSON: They're no longer --

MR. HSU: They're gone. They're gone.

MS. PATTERSON: Good.

MR. HSU: And there's less cloud hanging over that blue box than ever. And for us to --

CHAIRPERON CAREY: You have a question?

MR. JACOBS: Yeah. Just -- what's the burn right now in the out of money box per year?

MR. HSU: That's also a very good question. And it's great. I mean, it's good that it's eliciting questions and discussion.

As it turns out, that -- that -- that non-bond asset pot of money, okay, it has assets as well as it has cash. So what are the assets? These assets are the loans that we made long ago that are now not taxable bonds, so they're paying off, you know. They have principal components, they have interest components. They are paying monthly and basically coming in as cash.

As it turns out, roughly speaking, again ballpark numbers, that the amortization from those loans is just about offsetting the operating costs of the Agency. Okay? So when we look at the horizon as in like let's say three years or so, that's coming in at a rate that's basically offsetting the outgoing costs of the Agency. Okay.

So -- so, as I was saying, that cloud -- there's better visibility. There's not -- there's no -- it's not as if there's no cloud, but there's better visibility. And as such, I think that to go back into the lending space and to create new annuities, to create new fee-based activities, is the way to move forward. But we should use the capital cash in a very careful manner. We really can't repeat what we did in the yesteryear.

In 2006, we actually did an astounding dollar amount, $1.6 billion, at the peak of the market, I would say. So -- and in multi-family we did $240 million, in 2004. These are numbers that I would humbly suggest that we should not emulate in at least the next couple years.

I would add that too part of the reason why I think that yes, we can, capital intensity of these near-term lending initiatives that you hear about in the next couple presentations, they're less capital intensive than the lending programs that we did in the yesteryear, so relatively lower than a historical basis.

However, on the relative basis, relative to each other, our initiatives in the near term in the multi-family space will be more capital intensive than the single-family space because in the multi-family space we want to be both a lender and also an issuer whereas in the single-family space the near-term strategies are to securitize, to insure loans and to sell them to the market. So that's going to require very little or no capital.

So, yes, we can lend.

MS. CAPPIO: Thank you, Tim.

CHAIRPERON CAREY: Well, Tim, you've explained why you don't sleep at night.

Yes.

MS. CARROLL: I have a question. So will the rating agencies look at the extent to which we're lending and committing that blue box in their overall ratings of the Agency?

MR. HSU: Yeah. Yes, most definitely. But what -- in our past experiences with the rating agencies when we -- when they are kind enough to share some of the analyses when they look at capital ratios, look at financial metrics, what has become clear to us is that we're not capital constrained, but we're more liquidity constrained. So -- so the liquidity constraint is because we have to meet all these commitments. Right? So when we look at that deal that we talked about, the December deal, you'll see that that is less liquidity intense than it is capital intense.

So I think as such, it meets -- you know, I don't envision this year to be, let's say, a half a billion dollars in the multi-family program, if we are ramping up slowly and the swaps are amortizing and the cloud over this is unwinding. We could be ramping up our lending program over time as that risk is winding down.

MS. CARROLL: Thank you.

CHAIRPERON CAREY: Laura.

MS. WHITTALL-SCHERFEE: Tim, I have just one question. You said the Agency needs to stabilize its credit rating at a decent level. What are you suggesting on those decent levels?

MR. HSU: My aspiration is that the GO -- I -- I think that -- said another way, the discussion with the banks sometime in 2015 to replace the TCLP would be a much easier discussion if the blue box maintained an A rating and if the orange box also achieves an A rating. But I think that realistically if the orange box can maintain an investment grade rating, it will be a difficult discussion, but to fall out of investment grade, it's really traumatic.

MS. PATTERSON: So the summary is to continue to lend on multi-family, in your terms it will cost us more capital and is somewhat problematic, and to continue to lend on the single family requires less capital. Is that what you're saying? And so it's not as much of a problem? Or because -- and this is where I'm going: Are we still currently having healthy programs on both our multi-family and our single-family side, or have we closed those programs down?

MR. HSU: We -- we -- in December we did do a risk-share transaction of $70 million, but for all 2012 we didn't do -- we did not have a single-family lending program.

MS. PATTERSON: Okay.

MR. HSU: But as you'll hear, we are gearing up to go back into that space. But I think, to be sure, what I'm suggesting is that -- it is true that there is one pot of money that is trying to meet various demands. So there's a scarcity of resource issue. But what I'm suggesting is that lending in the multi-family space, though when compared to single family is more capital intensive, at the volume that we kind of expect we're going to be doing this year, they should not, on the margin, cause liquidity issues for the blue box to meet the rest of this year.

Single family, however, since we're going to be basically doing securitization and TPA execution, that requires very little to no capital because we're not actually going to be owning those loans. We just basically securitize it, sell it to the market and the market give us cash and we --

MS. PATTERSON: But that's our existing portfolio, not any new things.

MR. HSU: No, that's new things.

But -- but what I was talking about earlier was to securitize old stuff. What we're now talking about now is that the new stuff is to do the same kind of securitization, but they're going to be new loans, new loans outside of the orange box.

MS. PATTERSON: Okay.

MR. HSU: Another point I would emphasize, everything we're going to do going forward has to be new boxes because these boxes are -- have issues.

MS. PATTERSON: So you've already made the policy decision that you're going to loan on single family.

MR. HSU: No. No. We are going to suggest that to the Board from this Board meeting and also the next Board meeting.

MS. CAPPIO: And you will get to consider and agree to that. We're going to lay it out in concept today, and then by the next Board meeting or the Board meeting after, we're going to let you weigh and -- and decide.

MS. PATTERSON: Because I think that's a

fundamental policy question as -- when you talk about what is your role as a lender, on the lender side. And is it to continue to be in the business of providing lending for affordable housing in the single-family realm? That's where our biggest risk we're in is at. That's our biggest problem. Do we, as a policy decision, want to continue that aspect of our business, so to speak? Or, even though it may cost more money on the front end to do multi-family considering the environment that we live in, with redevelopment gone, longer term, do we want to focus our efforts on being a multi-family lender?

And I think that's just a fundamental policy question, but before you even ask that question you kind of have to know where are we? And that's where you're trying -- what you're trying to tell us now is your overview, but I think there's more information that we will need to have before we can say whether we want to continue doing single family or just focus on multi-family.

Does that make sense?

MS. CAPPIO: Absolutely. And -- and part of today's presentation will allow you to gain a concept of what we're thinking about. And, please, make sure that we can provide that information -- and that is, market information, what parts of the market are not -- the needs are not being met. Because investing in California at every segment of the market is a really important concept. But you all need to tell us what other information and analysis you need, and then we'll provide it as we move forward with this decision-making process.

MS. PATTERSON: Very good.

CHAIRPERON CAREY: Okay.

MR. HSU: Thank you.

CHAIRPERON CAREY: Thank you, Tim.

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Item 5. Update of Single Family Mortgage Products

CHAIRPERON CAREY: We will move forward with Item 5.

MS. CAPPIO: Exactly.

CHAIRPERON CAREY: And then to the reports. Okay. Got it. Thank you. Okay. So we'll hear Ken Giebel's presentation, and then we will take a short break.

MR. GIEBEL: Good morning, Chairman Carey, Members of the Board. Thanks for the opportunity, I think.

This is the appropriate place, after the last comments, to start talking about some product concepts for single family, which we have really not been in the business for about two and a half years. Okay.

But like in all single-family housing, there's a little bit of a "but." And this but's out of Washington. We actually have two people, actually the people who put this together, in D.C. right now at the housing conference by NCHSA on their lobbying operation. This is -- effects all HFAs who have downpayment assistance programs on the single-family side.

There's an interpretation based on some new regulations that -- we're seeing new regulations every day, I think. You just saw some last -- maybe last Friday -- regarding downpayment assistance. And we have one program that's bond funded that we administer. HCD is the holder of the bond money. And then we have another program that we will reinstate in January called the Extra Credit Teachers' Program because we have money in that pool to run it for a year and a half to two years. That also is a downpayment assistance program.

Our CHDAP program, which is a bond funded program, just to give you some perspective on that, last year, in 2012, calendar year -- and this may get to some of your questions about demand and I'll get to our target audience. We did over -- we had -- and I'm just going to talk about reservations. About 20 percent of them fall out, but reservations reflect demand. You have to be a first-time homebuyer. You have to be low to moderate income. We had over 8,000 requests, and that are other people's first. 90 percent of those are FHA loans that those CHDAP loans are attached to. They -- that represents in total first mortgages about $1.45 billion. And for us, that represents $45 million in downpayment support.

As you probably have read, the No. 1 benefit for first-time -- moderate to low income first-time homebuyers is downpayment assistance. It's been that way for years. So the issue right now with -- about a month ago at a conference some HUD/FHA people came out and said, well, interpreting this statute, we believe that your HFA programs, those need to be direct loans with the borrowers. The way we go about it is the lender makes the loan, and we reimburse the loan. That's like all HFAs, even whether they have the statute. We cannot be a direct lender. It's in our statutes. Some, like Minnesota HFA and a couple others, can be direct lenders, but they don't direct lend because, one, the personnel requirement and the risk.

So we immediately within NCHSA sat down and said, "Here are the issues." We e-mailed back both NCHSA and to HUD directly, and they presented a letter to HUD. Interestingly, on Wednesday morning, we got an e-mail from NCHSA with a response. That just happened to coincide with the conference that started Wednesday in D.C. because the HUD/FHA people were going to be there, and they seem to be backing off us being -- requiring direct lending. Because besides statutes, it's -- from a personnel and risk standpoint, it gets complicated.

So as I said earlier there's -- these days in single-family lending there's always a "but." So that will be resolved, and I don't have a baseball analogy for that.

All right. So let's -- let's -- this is page 2 of this document on single-family lending. We have a couple of concepts for you, for your consideration. I will -- as I go through this, I will give you some background on some of the Agency FHA experience and what we used to do.

In accord with our mission -- and we do have a new mission statement because we couldn't do our old mission statement. And with Claudia's help and help from the outside, we have developed a mission statement going forward that we can execute against.

Our target audience is low to moderate income first-time homebuyers and to give them an opportunity to secure a responsible low interest mortgage rate with bond-funded downpayment assistance, and they can also qualify for a mortgage credit certificate, tax credit certificate. We just started that program in June. As of yesterday, we have over 200 certificates in the queue. It's growing. We every week get another lender who comes onboard just to do the MCCs.

We also are starting to do -- one of the issues we had, the Board brought up, is we didn't want to compete with the localities and their MCC programs. We're not, but the counties are coming to us. And San Mateo and Sonoma Counties asked us to be their -- to be their MCC coordinator. And also L.A. Housing has put us on their website for outlying areas in their county that L.A. Housing doesn't cover. So that will pick up steam. It's another added benefit of doing business with CalHFA for first-time homebuyers. There's a 20-percent tax credit.

The strategies we're looking at for these products is to develop products that serve the needs of California's distinct -- CalHFA's distinct first-time homebuyer population. Typically they are younger, ethnic families, and they do not have downpayment assistance funds. FHA products are built for these people, and so is our -- the initial CHDAP program, which has been going on since the early 2000s, was built with this in mind as well.

We also are looking at designing products to address the Governor's sustainability, energy efficient and targeted economic development policies, and I'll talk about that when we get into some of the product attributes a little bit later in the presentation.

We have developed a lessons-learned matrix. And we have looked -- there are other HFAs doing these products across the country rather successfully, and we have looked at their characteristics and their performances, and we have that matrix. And much of what you will see is based on what has been done that has worked across the country from New Mexico, Texas, Washington, Maryland. There are a number of HFAs that are using a TBA model because their other model -- the other old model of tax-exempt bonds just doesn't work anymore.

We have minimized the risk by tightening the borrower underwriting requirements. You'll see that on the next chart. We have removed loan risk by we'll use a master servicer and a hedging facilitator.

Limit CalHFA's programs to FHA products only, because we lack an advantage. We could not do a conventional product. There's just no way that would work. And it would be way riskier.

One thing we cannot do because of our bond rating, which some other FHAs are doing, is that Fannie Mae has an infinity agreement with the HFAs and you can sell to their window. But because of our bond rating, we can't do that. They would charge us too many points, and then that -- the loan interest rate would be too high. And we lack mortgage insurance, because our mortgage insurance, even versus FHA's mortgage insurance, we gave a pretty decent break to the first-time homebuyers.

And the other thing is these -- as you saw under the objectives, we're conservatively protecting 300 million in the first year. It will -- we've been out of the market for a while, and it will take us a concerted marketing effort to get us back up and running, but we believe we can do 300 million and maybe perhaps between 3- and 400 million. That translates to offsetting all of the administrative costs to run that program plus. And it does address one of the concerns from the rating agencies of making -- getting back at making money.

MR. BELL: You say you're going to use a master servicer. Is CalHFA still doing any servicing currently?

MR. GIEBEL: Yes. We have -- our servicing operation is servicing our loans, which we service about -- I think about 60 percent of the loans you saw in that report. They amount to about 40 percent dollar-wise of the loan amount. I believe that's correct. And we service all downpayment assistance loans. So we service all the CHDAPs.

MR. BELL: And the plan, though, is to have a third party --

MR. GIEBEL: Yes.

MR. BELL: -- do the servicing?

MR. GIEBEL: Right. For risk. We -- to be a master servicer, some of you probably know, requires kind of a whole separate operation. There are not a lot of people master servicing, after they got out of the business. On the commercial side, it's just U.S. Bank. Okay. That's it. So we -- there's no need for us do an RFP on that.

We will do an RFP, by the way, on the hedging facilitator because there's a number of people who do that side.

And if you have any questions as we go along, just raise your hand.

On the next slide -- so what we've done together is this kind of addresses some of the risks that -- on the first mortgages. One is the borrower risk side. The other is the risk to the Agency.

As you saw, the ability to pay rules that came out last week speak to this borrower side, on making everybody operate off the same page on the -- on the lender side. We will require -- and we do require homebuyer education right now on the downpayment assistance loans, but you can get it through the MI companies, Genworth, MGIC and a number of other people.

We are going to institute our own CalHFA home buying education, will be required of all borrowers. FHA does not require homebuyer education. We will. It will be our program. It is an E-home online program. It's about six to eight hours. It's knowledge based so you have to pass from cell to cell. And it also includes financial literacy. It is being used by a number of the HFAs across the country. It does not seem to be any type of hindrance. It just is a requirement.

Now, there may be -- also with this E-home, they have an option to do a face-to-face through NeighborWorks. So there is that option, if they want to do that. It's just more of a time commitment in a single period for the first-time homebuyer.

We are going to look at a 45 percent DTI, I think you saw, on the ability to pay. That was 43 percent, but that 43 percent didn't take into effect the MI payment, so our 45 is right on the number.

Our minimum FICO score requirement will be 640. You will see that will be tiered in the presentation. Right now still FHA is 580.

Borrower contributions, now, this is cash money. They are going to have to have cash. It will be based on their FICO score. This cannot be offset by our downpayment assistance or by gifts. It has to be their money. Now, granted the gift can go to them and they can put it in their checking account and write the check, but we will require cash.

Okay. Now, on the risk mitigation side, we will use a hedging facilitator to eliminate the market risk to the Agency. We'll get into that a little bit more. The hedger takes all the market risk. They basically sell the loans, the MBSs.

We will get an underwriting and loan servicing rep -- reps and warranties. CalHFA, to answer your earlier question, will not be servicing these loans at all, except for the downpayment part. And we will be administering through the third party the MCC certificates, which we're doing now.

The use of a master servicer will eliminate the underwriting and loan servicing reps and warranties. You'll see in the next chart how this system will work. And the master servicer will take on all underwriting and loan servicing reps and warranties.

So on the next chart we'll --

MS. PATTERSON: Can I --

MR. GIEBEL: Sure.

MS. PATTERSON: -- interrupt you just a moment?

MR. GIEBEL: Sure.

MS. PATTERSON: In the previous presentation we had this orange box where all of the risks were. They weren't on the FHA side of the single family, they were on the conventional loan --

MR. GIEBEL: Right.

MS. PATTERSON: -- side; is that correct?

MR. GIEBEL: Yes.

MS. PATTERSON: And what you're presenting here is going even tougher on the borrower than FHA does.

MR. GIEBEL: Yes.

MS. PATTERSON: So you're moving to make it tougher; is that correct?

MR. GIEBEL: Yes. We --

MS. PATTERSON: I just wanted to make sure I had it right in my head.

MR. GIEBEL: Just to give you a little bit of background on the Agency's experience with FHA, so this -- this might put it in perspective. Throughout the 90s, CalHFA's history, we did about 90 percent of our loans were FHA loans. In the early 2000s, that dropped down to about 2005, and when the market heated up, FHA, in particularly California, became much less relevant because of their loan limit. It became a conventional market. And we had conventional products, and FHA dropped to about 12 to 15 percent of our portfolio.

So when you're seeing those FHA loans on that delinquency report, they are pretty much old FHA loans from the early 2000s and mid-1990s.

MS. PATTERSON: So from the early or mid-2000s on, those are conventional.

MR. GIEBEL: About 2003 it started, about when I started. And it ramped up to be close to 90 percent. And Wayne was there then, so he's going to testify.

Yes, sir.

MR. BELL: Under the new policy plan, as I understand it, CalHFA will not be the investor. You'll be doing the MCCs, and you'll be doing downpayment assistance. So what we're talking about as far as risk is the downpayment assistance that comes from the Agency; am I right?

MR. GIEBEL: Yes.

MR. BELL: Okay.

MR. GIEBEL: Yes, through the CHDAP, through the bond money, yes. That -- and we have that risk today. Those 8,000 reservations which are close to six -- we're projecting we'll do over 6,000 CHDAPs this year, which is more than we did in any given time in our history, which lets you know the demand.

And I think we all know from reading the newspaper what -- how tough it is for young families starting out to get a home, never mind to do -- you know, to get in the home. I can tell you personally, someone who works for me finally got a home after 15 tries -- 15. Outbid every time. So anyway.

MR. JACOBS: Can I ask one question about -- these are all single families.

MR. GIEBEL: Right.

MR. JACOBS: One of the ways buyers run into trouble is the roof is bad or the water heater. Is there some ability for these borrowers a year or two into owning the home if something like that goes wrong? Is there a second mortgage facility to be able to cover that? Because that's where all these people run into trouble.

MR. GIEBEL: Well, obviously you have to get the inspection for the -- that should be -- some of that should be addressed up-front, yes. I -- I think you'll see for future -- the answer is no. Okay.

MR. JACOBS: No.

MR. GIEBEL: But you will see a product in here for future consideration, because it will require a statute change for us, that's an FHA product that's energy efficient and can address things like water heaters, windows, solar for some of these properties. And that's at the very end, and we'll talk about it.

Yes.

MS. PATTERSON: I think as part of one of the borrower protections or borrower requirements to address this issue if you require some kind of homeowner's insurance that first year policy, plus a home warranty policy on the front end, that they have had that inspection and you know that you're not getting a first-time borrower walking into that. So I think that should probably line up on the borrower protection side.

MS. FALK: Can you give us some information where the defaults have come from? Has it been from --

MR. GIEBEL: You mean --

MS. FALK: Where did they come from?

MS. CAPPIO: Are you asking what are the reasons?

MS. FALK: Yeah, the reasons for the defaults. Has it been people losing jobs or values going down or --

MR. GIEBEL: Well, I --

MS. FALK: In this -- in your particular portfolio.

MR. GIEBEL: Di may be able -- with the Keep Your Home may be able to answer that, but I would say being first-time homebuyers -- and we can go back and look -- it's probably job loss of one or two family members. Remember these are moderate -- mostly moderate -- 40 percent of our -- over 50 percent of our CHDAP loans right now are to low income.

CHAIRPERON CAREY: Di when you get up, perhaps you can share that, your knowledge.

MS. FALK: I would just consider that we don't try to come up with a solution to something that really isn't the problem, and the problem is something other than that.

MR. GIEBEL: Yeah, I mean, no doubt it's unemployment or one of the family members has lost their income. And a lot of people, to be perfectly honest, when their house is worth 40 percent of its value in the Inland Empire said, "I'm not going to -- I'm never going to realize this and I can't afford it."

So, okay. Let me take you through how the TBA model works. Okay. So the lender underwrites the loan and sends the file to CalHFA for compliance review. This is no different than we're doing with CHDAP right how. We're underwriting CHDAPs for compliance review to make sure the first-time homebuyers, their income is within the income limits.

We approve the loan and issue a conditional approval to the lender so they can close the loan. From there, the loan closes in 45 days and ships the file to the master servicer to purchase within ten days of closing of the loan. Master servicer reviews the file and purchases the loan. That's where the underwriting comes in.

Hedging facilitator will monitor the purchase activity and pooling instructions to the master servicer. So in reality that's going to take somewhere between two and five minutes, it goes from the master servicer to the hedger.

The pooling is important because they pool those in different pools based on credit ratings and downpayment, and some of those will make a hundred basis points on them and some of them will make 150 to 175, based on the quality of the loan. That's one of the successful things we've heard that the hedging facilitators can do. So there's kind of a floor on how much we expect for a return on each loan.

Hedging facilitator will publish the settlement, the purchase price for each loan including the accrued interest and SRP. On pool settlement date, the master servicer delivers the MBS to the hedger for purchase. That's the part that takes a few minutes. CalHFA will reimburse the master servicer for the DPA. That's kind of what we do now. And -- on the CHDAPs. And on settlement date, the hedging facility will wire the remaining proceeds to CalHFA.

MR. BELL: And at that point CalHFA has no more liability --

MR. GIEBEL: No.

MR. BELL: -- on that.

MR. GIEBEL: No.

And, as I mentioned earlier, U.S. Bank would be the servicer.

Okay. So let's just look at the two products we're looking at, because they're a little bit different. And as I said, both of these products are being used in the marketplace by HFAs. Okay?

The first one is the finance through a premium priced mortgage currently ranging from 104 to 106 percent of par. So what's been done is they're sold as mortgage-backed securities, Ginnie Maes, and -- through a hedging facility. What we do is pricing rollout for the creation of downpayment assistance within the first mortgage. So as you'll see from the next point --

MS. CAPPIO: Ken.

MR. GIEBEL: Yes?

MS. CAPPIO: Can you --

MR. GIEBEL: Oh, sorry, sorry. I need an assistant.

The -- Laura? -- thanks, Tim.

So the -- it's going to be about 50 basis points to get them to 35 or 104. And that will provide them with additional downpayment assistance on which they can add a CHDAP or an Extra Credit Teachers. You can't double those. You have to take one or the other. Teachers, you have to qualify for. You can use your mortgage credit. And the downpayment assistance will range from 3 to 4 and a half percent.

And we're looking in higher cost areas where there's job growth and some inventory to go 4 and a half percent. And this -- it's a zero-rate deferred payment on the DPA portion. When the loan is disturbed, they have to pay that back. Okay? But it's built into their mortgage payment, because they're paying a higher interest rate. So we're calling that currently FHA Advantage.

The next product is a straight FHA, sold as a mortgage-backed security. Can be combined with all those downpayment assistance and the MCC, but we do have $9 million in a home purchase assistance fund that's been sitting there. And what we're going to do is take that and put a downpayment assistance program targeted to high-cost areas based on job growth opportunities and housing inventory. So --

MS. PATTERSON: What is that 9 million? Is that part of the --

MR. GIEBEL: No, it's another fund that we had that has been sitting there, and we've been waiting to get back into lending so we can take that money and use it. We can't use it for anything else, so that's what we can use it for.

Now, you know, one of the issues we don't want to do with this money when we talk about high-cost areas, we don't -- and we learned in our looking back. We don't want to go into areas that have job growth, like San Francisco, but there is no housing inventory because all we wind up doing is help the market speed up the process because they use us as an example saying, well, here's downpayment. And, you know, there may be a property or two, but it becomes an issue. So we have to look around, and we're going to do our work, and we will come back with recommendations on where to target this money as well as the 4 and a half percent.

MS. PATTERSON: Because earlier I think you said you didn't want to compete with local housing finance agencies that are doing downpayment assistance.

MR. GIEBEL: Well, we can work with them on -- with their downpayment assistance programs. We can work with them. It was on the MCC, it was a decision for policy not to compete with them, and we didn't. But as they -- lack of staff and the inability to do this, because you have to go really get somebody to help you do this, they have said, "Well, could you do this for us?"

So some of the operational policies, all programs will be capped at 103 combined loan to value. We will require cash investments from the borrowers. We are working on this, and I'll get back to that in a second. All loans will require a debt income ratio of -- debt to income ratio of 45. Homebuyer education is required. Program will require a master servicer and a hedging facilitator.

Just to let you know, what we typically do on this, because we're obviously not a direct lender, we are conducting focus groups this afternoon in Los Angeles with our loan officers, and next Tuesday in Sacramento, to just make sure that the sales force can sell the product.

So there's -- I'm sure we're going to get a lot of push-back on cash in the game, but we have told them up-front that there are going to be requirements. We're going to look at levels. And we'll see what's -- what they say and probably add 50 percent to it, so. But we are going to do our homework, and that's happening in the next two weeks.

MS. PATTERSON: So can you give some of the reasons why we went to the right on the borrowing requirements, even more requirements than FHA? Was that just to be a little more conservative or --

MR. GIEBEL: Yes. Because -- a couple of reasons. One, we think it's in the borrower's interest, and, two, we do have downpayment assistance money attached to this. So we do want to protect that by making sure they are educated on the homebuying and financial literacy and also to make sure they have a little bit of skin in the game, so there's some of their money attached to it so it's not as easy to walk away, and it is an FHA loan.

So some things for future consideration -- and we are going to start working on this. We need to get up and running. We'll be back to you. There is a -- as part of the CHDAP loan program, there are transit areas, neighborhoods, defined where we can actually take the CHDAPs to 5 percent. We have to identify those, monitor them, make sure they meet all the regulations. And that would be on the Agency to do that, so that would require some staff to do that, but we are going to look at that.

And, two, there is an FHA product called Energy Efficient Mortgage. It's a grant built into the loan, kind of like how we're doing the Advantage. We would need a statute change because we can't do traditional grants as we're set up. So again, that's financed through the sale of a premium-priced mortgage and sold as MBSs. There's a conditional grant, and that also can -- program could be combined with CHDAP, ECTP and MCC. We would work with FHA to help actually get this off the ground for them. They haven't been very successful in doing that program.

MR. BELL: If you were to get that statutory change, what would be the proposed amount for the grant?

MR. GIEBEL: It's -- ours is going to be -- I think it's 4 percent. Ours would be 5 for a total of 9 percent.

MR. BELL: Okay.

MR. GIEBEL: Okay? Like -- that's another reason why we have to work with FHA.

Any questions? These are for your consideration, as Claudia said. It's a direction that we've been looking at for quite a bit. We've tried to minimize the risk and put borrower protection, ability to pay considerations, in. And there are lead times, just to let you know. We are working with U.S. Bank. Obviously we will need a contract with the hedger. We're going to do an RFP, but internally we have IT considerations, so we -- we have a project manager on this, and we're heading in that direction.

MS. CAPPIO: So one question would be for the Board what else would you want in front of you, what other analysis, information, et cetera, in order to properly consider these -- this direction?

MS. PATTERSON: Can I follow up on the Energy Efficient Mortgage Plus Grant? What would be the funding source for the grant?

MR. GIEBEL: It's -- it's built into -- it's built into the first mortgage. Okay? And it's -- that's the way it's done. And it's -- again, you don't pay interest rate specifically on it. And it's -- because it's a grant, it's forgivable. So at the end, they do not have to pay on that. We just have to monitor -- one of the big issues is getting the work done with approved contractors and then confirming that the work is done. And that would be on the Agency to get that work -- to get that part taken care of, monitored, so.

MS. CAPPIO: But, Ken, I guess to further --

MR. GIEBEL: Yes.

MS. CAPPIO: -- focus, I think this is an FHA -- an existing FHA program --

MR. GIEBEL: Right.

MS. CAPPIO: -- that allows what Ken has described to be built into it.

MR. GIEBEL: Right. And we would build in -- on their program, we would build in the additional so we could get it to the max, for example, the 5 percent.

MR. BELL: I just have one follow-up question too.

MR. GIEBEL: Sure.

MR. BELL: You said before that there's only one existing master servicer and that's U.S. Bank.

What about these hedging facilitators, do you expect there would be a robust competition?

MR. GIEBEL: It will be interesting. Right now Morgan Keegan does it. First Southwest does it. I think there are -- Wells might do it. I don't know if they'd be interested in ours.

MR. BELL: An RFP will need to be drafted.

MR. GIEBEL: Yes. We have a draft of an RFP. It's in legal right now.

MS. PATTERSON: So you said you think about 300 the first year, so getting back to what Claudia said about additional information, 300 a year, how many loans -- I mean people do you think --

MR. GIEBEL: Figure about -- figure about -- the loans we're seeing on CHDAPs are about 200,000, so 1400, somewhere in that neighborhood.

And we're conservative, so if you think of this -- the way we thought of it was if we're -- if we've seen CHDAPs reservations at about 8, 8,000-plus, and you -- and you took that down to 6,000 that actually get approved and then you half that, that we would get half -- half of our FHAs would have CHDAPs with them. And then you take 60 percent of that, you're somewhere between 300 to 400 million, year one.

The issue is it will take us three months to get up and in the marketplace. Because a lot of lenders need to put us back into the system. And as some of you know, we have a very antiquated loan origination system, so it needs to be a special -- it doesn't fit into their IT origination system as is. So in other words, Wells can't use their system to do our product. They have to put us in.

MR. BELL: I have a question.

CHAIRPERON CAREY: Yes.

MR. BELL: Best practices. How many other HFAs are doing a program either identical to this or very similar to this, and what is their experience with that?

MR. GIEBEL: They are doing these TBA programs. The first product with the build-in downpayment assistance is probably doing 80 percent of their business. It's been very successful, very well-received by the lenders. They're doing straight FHAs too. Mass is selling to the window and doing really well.

MR. BELL: And they're using the master servicer and --

MR. GIEBEL: Yep.

MR. BELL: -- hedging facilitator?

MR. GIEBEL: Yep. Yep, and the other thing is our -- based on -- most of them do not require any money from the borrower. Most of them are between 620 and 640 on credit scores. Most of them do not have 45. Some of them are at 50 -- 50, but there's all sorts of requirements, so that's when you have to have money in the game, and that's when you have to have three years of employment history and all that, so.

MR. HSU: Wayne, just wanted to do a little back check here. There are plenty of master servicers out there for our secured housing loans, but only U.S. Bank is playing in the HFA space today.

MR. BELL: I see.

MR. HSU: B of A is still a master servicer, but it just pulled out of the HFA space. Katie is familiar with these kinds of situations where the banks could be active in these different capital market areas, but they need to also have a specialized practice group that goes into our space. So, you know, all the bulge packets out there, people like Wells, B of A, they still have a master servicing practice, but whether or not it services HFAs as a client.

MR. BELL: Thank you.

MR. GIEBEL: U.S. Bank, the one commercial.

CHAIRPERON CAREY: So if I can say of those four lending programs, two of which are potentials which require some work, the transit neighborhood and Energy Efficient Mortgages. The other two are really a continued step on the path we've been on for quite some time to get back into the single-family market at a very low risk --

MR. GIEBEL: Right.

MS. CAPPIO: -- low capital intensity --

MR. GIEBEL: Right.

CHAIRPERON CAREY: -- but making our presence known. I think I heard you say, again, that part of the problem is that our presence is not known out there.

MR. HSU: Right.

MR. GIEBEL: Well, we're known for -- we're known for our downpayment assistance, but on the first mortgage side, that's a different side of it.

CHAIRPERON CAREY: The Agency has that sort of added drive that some of us don't have to generate revenue.

MR. GIEBEL: Yes.

CHAIRPERON CAREY: I assume that that's part of this, is that it becomes revenue generating --

MR. GIEBEL: Yes.

CHAIRPERON CAREY: -- after some --

MR. GIEBEL: Like I said at the beginning of the first year, we get our 3 to 4 million dollars that pays plus for admin costs to run the operation. And interestingly, one of the questions in the focus groups is what -- do you see us as having a role back in the marketplace on an FHA business like we used to have? None of these loan officers were around in that time period, but that's the question that we will ask.

But after we looked at the number of CHDAPs that were flying out the door -- I mean, we were -- before the holidays, we were getting 30 and 40 a day. There's obviously a need for that marketplace, and we are told that we would -- we've been told when we did our study for our mission statement that -- by that segment, "We would like to see you back in the lending business for that target audience."

CHAIRPERON CAREY: And that is going onto other people's loans.

MR. GIEBEL: Yes. The biggest -- the biggest are Guild and Wells, keeps growing using our dollars. But we do have -- one thing about us is we -- we are back over 50 lenders after dropping down to the low 30s. We should be close to 60 by the start of the new fiscal year. And a lot of them are local, little lenders. We have a lot of people who service special markets. Santa Cruz, for example.

MS. PATTERSON: So as you're going forward meeting with your focus groups --

MR. GIEBEL: Um-hmm.

MS. PATTERSON: -- matching need with lack of resources, so in those communities where they're not having a local housing finance agency and those communities that used to be redevelopment, downpayment assistance, that's gone away, are we getting the -- your capacity with those limited resources, I think it would be nice to give -- to include that in your focus group and have an analysis of where are we needed so that we can go put ourselves in those places.

MR. GIEBEL: On our -- on our outreach, wearing my other marketing hat -- on the outreach and advertising parts, one of our target audiences is localities. So in other words, we work with the localities. We let them know we're up and running. And you can use the first with the second, if you have -- most of them don't anymore, as you mentioned, but some do -- L.A. Housing -- they can roll up their downpayment assistance within these loans.

But we do have 103, so that's -- that's the stipulation. We're not going to 120 anymore.

MR. JACOBS: Is there any problem with collaborating institutions, like USC and their homebuyer programs for employees?

MR. GIEBEL: We have, but we can -- we can do the awareness. We got to get our loan officers there.

Okay? Are we all -- also, we will be talking to Google, and we will be talking to the people who are employing people. That's one of our outreach and marketing goals, is to get into the communities where employments -- I mean, there was an interesting article in Riverside, which was ground zero for us for REOs, but they have a growing tech. And those people will be young, and some of them are production people. That's the targets. Okay?

CHAIRPERON CAREY: So is there any reservation with rolling out these programs, the first two, FHA Advantage and CalHFA?

MR. GIEBEL: Thank you.

CHAIRPERON CAREY: Back to business, then.

All right. We are going to take a ten-minute break, and we'll be back in here at about noon. We will continue right through the noon hour.

(Break taken.)

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Item 6. Informational workshop discussing Board governance and overview of CalHFA's organizational structure and business operations (continued)

CHAIRPERON CAREY: Okay. We're back in session and continuing on with the Board governance overview presentation. Jim, you're up.

MR. MORGAN: All right. So just to keep a sports analogy, as a game plan, if you will -- because it's football season, not baseball -- this is a game plan, if you will, to -- to prepare and to achieve success, so -- I'm from Oakland. I won't say it's an Oakland Raider game. It's more like a San Francisco 49er game plan.

So -- so what I was tasked to do is at the end of the day when you guys receive your board binder, what -- what due diligence has gone on? What -- what has been the process to get you the final product as far as making a recommendation for loan approval and making sure that we've done a complete and thorough analysis and vetted the project to the point where we feel comfortable making a recommendation for approval?

The possess is --

MS. PATTERSON: Jim, we don't have these in front of the Board, so if you can -- are there extra copies?

MS. CAPPIO: I apologize.

MR. MORGAN: I have three extras.

CHAIRPERON CAREY: For those of us who can see the screens --

MS. OJIMA: Highest bidder? Highest bidder?

MS. CAPPIO: Thank you.

CHAIRPERON CAREY: Okay.

MR. MORGAN: Okay. We're triaged?

Okay. So the process begins with basically preliminary numbers financial analysis. We're either contracted by the developer directly or by a real estate broker or a referral from our asset management folks if the project's in the portfolio or there's a developer that has another project that they would like to finance.

These are some of the preliminary items we look at. Usually along with that contact we'll receive a pro forma from a developer, as far as an overview of the financial analysis that they have, or there may be a marketing package from the broker that contains information needed to do our financial analysis.

And we start our -- we commence with that analysis with our own software. We look at financing equity, other sources as far as any other commitments in the deal or if there's going to be some subordination from any other localities, the timing of that.

Site control, that's a purchase and sale agreement already in place. Are they considering a purchase and sale agreement, or do they want to know what their pricing would be?

The deal team experience. Is their experience, you know, affordable housing experience, pertaining to that developer or their contractor or any of their deal team folks, architect? And what investor, proposed investor, do they have? Are they -- what's their experience with CalHFA?

Rent restrictions. You know, CalHFA, TCAC, HCD, any rental subsidy with regards to HUD and for how long? You know, 30 years, 55 years, how long are those restrictions going to be in place? In addition, what is going to be the rental restrictions? CalHFA has its requirements, 20 percent, 50 percent BMI, what's the rental restriction structure for this project?

When we come down to the operating expense and debt service coverage, after we've performed our analysis -- prior to performing our analysis, we contact our friends in finance and -- and try to obtain an interest rate, whatever the current interest rate is, to run our numbers to see what's there. In addition, if the deal is in our portfolio, you know, finance will also provide us with the nuances of the existing financing and, if applicable, any kind of deal maintenance or prepayment fee.

In addition, we have our own asset management folks that we bring in to talk to, because they -- we have 500 projects in our portfolio, so we have -- and they're geographically disbursed, so it's a good starting point for operating expenses and, if the project's in our portfolio, any issues that may be at hand.

So if that seems to pencil preliminarily and we like it -- I mean, at that point it may or may not work. We can decline it, take a pass, or we can decide to go forward. And this is about a one-or-two-week process, by the way.

If we decide to go forward, we schedule a site visit and a concept meeting. So what we like to do is meet on-site to check the condition of the project, the acceptability of the project, if it's, you know, next to a fertilizer plant, maybe -- maybe it's not the deal, we'll take a pass on. If it's our project, we know it's in good shape.

Two, the neighborhood and surroundings. And then also during that site visit, we need to talk about the concept of the project, the scope of it, what we're going to do. And at these concept meetings, we prefer -- we don't require, but we prefer that the developer, the developer's reps are there, whether it be their architect or contractor rep. Any locality that may be in the deal that -- that can show, we'll make contact with them, HCD or CRLA or somebody else that's in the deal -- to go over what it is we're going to do.

We'll tour the site. We have our own CalHFA multi-family programs construction inspector that's with us. And if the program is in our -- if this project is in our portfolio, we have our asset managers to look to to let us know what other issues there may be from our inspectors. There could be some roof or window issues, what have you. We have them to lean on for information.

MS. PATTERSON: I'm sorry, I came in late. Are you just talking about your loans are rehabs, or are you --

MR. MORGAN: I'm talking about --

MS. PATTERSON: -- talking new construction or --

MR. MORGAN: Sure, sure. Yeah, I'm talking about acq rehab, whether they be new or preservation. Our goal is to -- we -- there is a demand in our portfolio to recapitalize.

MS. PATTERSON: Okay.

MR. MORGAN: But our goal, when we come see you in March, is to have a product that's marketable for projects outside the portfolio, where we can go out and compete. So I've -- you know, it's been four years since we've been able to do that on the competitive side. We had -- we had the New Issue Bond Program last year with Treasury buying the bonds. We're looking at several different tools for the toolbox, as Tim likes to call it, on which to do that for 2013. So --

MS. PATTERSON: So has your multi-family side been frozen like the single-family side for the last couple years?

MR. MORGAN: Temporarily suspended, but I mean for 20 -- 2010 and 2011, we did conduit issuance on the multi-family side. 2012, we did the $70 million of preservation financing. So it's kind of a jump start for 2012.

MS. PATTERSON: When I think of multi-family, I think of three categories -- lending: Multi-family lending on new construction, multi-family lending on preservation of your existing portfolio where you're recapitalizing, or multi-family lending on a rehab that's outside of the portfolio. So are we talking about --

MR. MORGAN: We're talking two --

MS. PATTERSON: -- all that together?

MR. MORGAN: -- of the three with the product that we have traditionally.

MS. PATTERSON: Okay.

MR. MORGAN: With our HUD risk share, it's substantial rehab only. It doesn't allow for new construction.

MS. PATTERSON: Got it.

MR. MORGAN: So we're looking at inside and outside. Our portfolio and outside.

MS. PATTERSON: Okay.

MR. MORGAN: And -- and doing that site visit and concept meeting it's usually within two to three weeks of the financial analysis, because during this time we're trying to engage a physical needs assessment consultant to be out there to tour the site with us because that PNA is a requirement for the acq rehab so that we can get an idea of the scope of work that needs to be done.

So when we have this site visit, almost always the PNA consultant's at the site with us so we all can see the same thing. The developer's seeing the same thing, the -- CalHFA's seeing the same thing, the PNA consultant's seeing the same thing. And it also includes, you know, noticing the tenant and inspecting the units inside as well.

And there's -- and there's a reason for the time lines, and it will be the last slide. I'll get to that.

So at that time if -- if -- if we get a good feel for the project, then we start the CalHFA loan application process, and we also start the CDLAC application process. And if it -- with the process that we have, we have our application requirements. And when the CDLAC and the CalHFA application comes in, it's like application deployment. We have -- our legal staff gets a part of the application because there has to be a public notice period. They're going to look at our organizational documents, and they're going to look at any ground leases, make sure that we're -- you know, we have a legit borrower and if there are any nuances in the ground lease or other legal documents.

Our loan administrative staff grabs that CDLAC application and starts reviewing it for market studies, public purpose, making sure we have bus stops and grocery stores and -- and -- and making sure that the affordability -- that the -- that the restrictions or what the applicant says is going to be is in the application. They also start their HUD due diligence for the previous participations, the 2530s and 2880s, which could be quite time-consuming.

Our loan specialists, which are kind of the loan officers' assistants, they take -- and at this time we probably have an updated financial analysis, we take and start tweaking the numbers. We're going to have some -- part of our loan application is -- is historical operating expenses and rent rolls. We start to update our financial analysis. The borrower will have a point of contact at all times. If the loan officer is not in, the specialist will be in to help. So they have a point of contact at all times.

Part of those third-party reports that come in, the appraisal, sometimes -- 50 percent of the time that appraisal is ready, and 50 percent of the time it's not. Energy audit, as we move forward, energy efficiencies will be a requirement. Soil studies, ALTA surveys, seismic review, it's all there.

That construction budget that comes in, we compare it to the scope of work that's within that physical needs assessment, and we all hark back to our site visit to make sure that what is incorporated in the borrower's scope of work is also the same as in the PNA that we -- the PNA consultant that we've engaged in that report and we've incorporated that into our financial analysis. So usually, again, updated financial analysis, we're also updating construction numbers. Equity numbers change too. Equity numbers change all the time.

And then all the other -- the ancillary items, you know, relocation plan, if there's some tenants that may -- that could be over income or relocation plan as in if there's going to be massive amounts of rehab, the costs associated with that relocation expense and what's happening.

Recent property inspections, again, if it's in our portfolio, our asset management inspectors have been out once, twice, a year. We have access to those. We can see what's going on as well.

After this analysis, you know, we make a determination of the adequacy of this information and any additional information that's needed. And at this point we can decide to move forward or decline. It's not -- you know, it's not uncommon that we have declined a loan before, because we do.

MR. JACOBS: Are there living wage requirements on the construction bids at all?

MR. MORGAN: I -- I haven't -- I haven't seen that, but there are living wage requirements. What we've seen is our -- our deals require, they're going to be Davis-Bacon anyway, as a requirement of the

HUD -- of the HUD risk share.

MS. PATTERSON: So all of the construction, multi-family construction, loans are subject to Davis-Bacon?

MR. MORGAN: They are.

MS. PATTERSON: If there were --

MR. MORGAN: They'll all be required.

MS. PATTERSON: If there were a certain number of units or --

MR. MORGAN: No. A hundred percent --

MS. PATTERSON: -- a hundred percent.

MR. MORGAN: -- Davis-Bacon.

MS. PATTERSON: So all your multi-family loans are --

MR. MORGAN: Yes. It's a requirement of the HUD risk share.

CHAIRPERON CAREY: Under the HUD risk share.

MR. MORGAN: Under the HUD risk share. And that's the -- that's the tool we have in our toolbox at the moment.

MS. PATTERSON: Okay.

CHAIRPERON CAREY: It's not true if you have a multi-family new construction.

MR. MORGAN: No. No.

MS. PATTERSON: So --

MR. MORGAN: I mean, well, others -- 2008 report. Last year, yes, all those -- all those, the nine deals that we did last year had Davis-Bacon HUD risk share.

MS. PATTERSON: Okay. And so when -- since we're still on the construction budget and since it is subject to the HUD Davis-Bacon, had you also had construction minimum guidelines for rehab and a per-unit subsidy that you do? So are you looking at that as well?

MR. MORGAN: Yes. So -- so -- well, with regards to the HUD risk-share agreement, it's a 50/50 split of risk.

MS. PATTERSON: Okay.

MR. MORGAN: They accept our underwriting. We have to meet their criteria. One of the criteria is the substantial rehab formula, which is about 17-5 a unit.

MS. PATTERSON: Okay.

MR. MORGAN: But as far as a subsidy for -- for the -- for the -- for that unit or that tenant, there's not a requirement there. What we look at -- what they look at is they -- they will -- they will review our underwriting, but the deals that we submit to them are a hundred percent affordable, 50s, 60s, 80s, 120 percent. Their -- their concern is ADA access to make sure that we at least have if not 5, 10 percent of the units ADA accessible. And the relocation plan, they look hard at that.

MS. PATTERSON: Okay. So do we have a formula or a policy or a guideline as we're doing our multi-family work to look at minimum construction standards to meet a certain amount of useful life and, secondly, that here is our general amount that we will put in per unit subsidy? Do you have that?

MR. MORGAN: Yes, we do. As far as the -- what was the first one, again? I'm sorry.

MS. PATTERSON: A minimum construction standard for --

MR. MORGAN: Yes.

MS. PATTERSON: -- rehab --

MR. MORGAN: Yes.

MS. PATTERSON: -- so that you know it's going to meet a certain useful life, depending on the amount of money --

MR. MORGAN: So for -- for -- we -- we like to see more than just a minimum, 17,5. The useful life that we want to see is 25 to 30 years, it's extending of the existing life of the project.

As far as the subsidy is concerned, we don't --

I mean, we don't have, I mean, a subsidy as far as CalHFA, but we do have a restriction on the units as far as income. There may be a -- a -- a Section 8 subsidy, which we would take into -- you know, that we would -- that would come along with that that would be project based or tenant based, but --

MS. PATTERSON: So yours is just straight permanent construction taking out other -- perhaps. Yours is permanent financing for construction.

MR. MORGAN: Ours is acq rehab and permanent financing. If we -- we get initial endorsement from day one all the way through to completion, and at completion we get our final endorsement for the permanent loan. So it could be to a two-year rehab period, and then at month 25, we receive our equity payout and convert to permanent.

These are variables that can impact our review time line. The appraiser, the workload -- the appraisal seems to be the -- the challenging document, because it seems -- there seems to be an appraisal for TCAC's requirements, there's an appraisal for the developer that they're trying to negotiate with the seller, and then there's the CalHFA appraisal requirement. And sometimes those numbers are -- could be different.

So, you know, that's what we -- what we're moving forward to do in 2013 is CalHFA has their appraisers under contract, the benefit of the appraisals for CalHFA. And we go -- and we have our own appraisal requirements that we share with the borrower, that we will utilize for our loan and it meets -- and that it meets our requirements. And part of those requirements too, Tia, is that we have -- we have set those guidelines out for HUD risk share, 90 percent loan to value. Our debt service coverage ratio is 150 and 120. They have bought -- they have accepted our underwriting, those guidelines, but we are meeting their requirements.

The HUD review, the 2530s and some of the environmental review can take an extended period of time, which can -- which could affect our time line. The PNA and energy audit, depending on the workload of the consultants that either we have under contract or consultants that we allow to exercise -- that are allowed to -- to perform the PNA may have a workload. And there may be some discrepancies on what we want to do.

For example, if there's a major repair that's six, seven years out on this reserve analysis and it's -- and it's -- and it's for a new roof, we want to incorporate that in the current financing, because we don't want to go seven years out and have to replace a whole new roof when we're trying to extend the life of the project for another 25, 30 years.

Phase II, heaven forbid there's a Phase II, but that would affect the -- the impact.

The developer, the developer may have numerous projects, may be quite busy, and may be dealing with other localities that they are -- whether it be the TCAC application, what have you. That could impact our -- our time line.

And then CalHFA as well, given our -- given our workload, trying to fit the approval process, the time line, into their schedule could be a little challenging. That can affect the time line as well.

So after that analysis, we come back and -- and if we vetted it -- like I said, we could either decline if we don't feel comfortable. Maybe we don't have a rate that's competitive. Maybe our reserve analysis -- our replacement reserves are more than what they require or want to deal with, but if everybody's onboard -- go ahead.

MR. JACOBS: Just go through the capital stack on a typical loan. I know there's always going to be variables here, but where are we in the stack and what else is there? Is there municipal contributions? Is there --

MR. MORGAN: Well, we start, as far as -- as far as the loan side, we start at around 150 basis points, Tim, and work back. So it's -- our bond financing, we don't have a real interest rate going forward, but that whole capital stack, we're going to add -- let's see, how can I put it?

MS. CAPPIO: He's asking the stack, where we are in the stack.

MR. MORGAN: Oh.

MR. JACOBS: How many others?

MR. MORGAN: So as far as -- we're always the first, in first lien position.

MR. JACOBS: Right.

MR. MORGAN: And then what we see as any additional capital, it's usually investor equity, and at this time that's tax credit equity. And if -- if there is any other limited sources, MMP or -- or, you know, borrower equity where they have another -- another project that's sold and they want to bring in equity, but that's what we see. And if there's another soft money debt that's in there, there would be some subordinations, but we're always in first position. Always in first position. We are -- we get paid back.

We're not soft money or residual receipt money.

MR. JACOBS: Is there a limit to loan to value?

MR. MORGAN: Yes. 90 percent loan to value.

MS. FALK: I just wanted -- having worked on a lot of these, to the extent that you can coordinate with other state agencies, in your underwriting standards, it's really helpful because it drives everybody crazy that different agencies require different things. I'm thinking of like reserve requirements and operating costs and many other things that you require.

MR. MORGAN: That's currently -- that's currently -- with the latest experience that we've had on some of our preservation loans, it's vital that we work together there. I know that our friends at TCAC have de minimus requirements on replacement reserves -- we'll take that for example -- where the Agency just takes a harder look on if it's a family project, you know, it's going to need a little more. You know, depending on the scope of what's been done, it may need more replacement reserves built into the operating budget.

But, yes, our experience, especially this past -- these past seven, eight deals, not only working with the state agencies, but other localities and --

it's very vital because it all affects the timing. And the more soft money subsidies, absolutely. So we take a proactive approach to making -- and not just call and leave messages. We call until we get an answer or a response or a viable solution. But we -- absolutely.

MS. FALK: Because that's probably the biggest impediment to the time lines, is the different requirements of the different entities and trying to resolve them.

MR. MORGAN: Yeah, up until 2008, we had a universal application. So you had the -- the beginning part of that application where it's just the preliminary information, that works well for TCAC, CDLAC, CalHFA, HCD, and everybody else had their components.

So when we tried to utilize the universal application for 2012, it was like what are you doing? This is from four years ago, and that was four years ago. So we're working back and educating folks on our universal application. But we -- our experience just with -- again, with these past 2012 deals, it's almost -- it's communication that we deal with every day, depending on the importance of it.

MS. CAPPIO: So as we're working better together between agencies, that's an important component, coordinating.

CHAIRPERON CAREY: Jonathan, you had a question?

MR. HUNTER: Yes, just on the positioning of the loans.

MR. MORGAN: Yes.

MR. HUNTER: It was my understanding that on the MHSA housing program, that they -- that CalHFA actually agreed to be subordinate in some cases where the CalHFA loan was clearly much smaller than the other hard debt coming in.

MR. MORGAN: Yeah. So that's -- that's a good point, Mr. Hunter. We were talking about just on the acquisition rehab piece. This loan program, yes, we're in first position. On the MHSA program that we administer for DMH, we're in -- our position is whatever the dollar amount puts us. So if we're at, you know, $500,000 MHSA loan among six or seven other lenders that are above us, we come into that pile. We are in a subordinate position. Okay?

Now, I know that that looks kind of crazy, but it's not, and I'll -- and I'll -- I'll explain to you the madness. I just wanted to show you -- you know, taking the example and trying to incorporate what we do as far as our review and analysis and -- and the time line in which -- how we could affect the time line.

So we have our preliminary discussion February 1st, we go out on a site visit on February 14th -- now, by the way, this is a borrower who's come to us and said, "Hey, I got to close July 1st." So, okay, fine. We'll work hard to achieve your objective.

The CalHFA loan application date is usually the same as the CDLAC application due date, and here's why: If we have a July 1st closing time line, we have to back into your Board meeting, the Board meeting here. So the next Board meeting I believe is July 7th, would it fit? No, it's July 1st. So what's the next Board meeting, May 9th. So really what we do is we start at that date and work backwards, but I'm showing you forward.

So the -- and -- and CDLAC requires our final commitment before they can award allocation. So when we produce our board meetings every year, we make sure that they're at least a day before the CDLAC allocation committee meeting.

So we work backwards, but we're now -- but now I'm going to work forwards.

So given the -- given the -- that we have initial senior loan committee for CDLAC on March 13th -- and that's preliminary information for CDLAC.

CalHFA is allowed to provide them with an initial commitment, not a final commitment. The initial commitment is accepted by them subject to obtaining a final commitment.

So a lot of the numbers are preliminary, except for one, and that's the loan amount. So we've got to be pretty -- we've got to be accurate on the loan amount because we're going to ask for a tax-exempt allocation going through the process. That takes CDLAC, they like 60 days to review. And we have got to make sure that that loan amount is -- is fixed. Otherwise, if it goes through and it gets approved and then there's an increase in the loan amount, we're going back for allocation. But if it's a decrease, we're okay. We may not use our full allocation. As long as we're within 80 percent of that, there's no issue. So that's our initial senior loan committee meeting.

The write-ups, as we go through this analysis, we -- we -- we accumulate all the analysis that we have. We incorporate it into the board write-up format that you all receive and -- and put it in such a way that it flows, where you get -- you get the up-front picture, the overview with financial information up-front, and then ancillary information all the way through, six, seven pages, at the end where you have the resume of the -- of the development team.

Then we go to the senior loan committee for more. Now, our senior loan committee is comprised of our senior staff: Claudia, who has the housing experience; we have Tim, who we can ask anything about the financing; we have Margaret, who provides us input on any operations; we have Ken Giebel. We have folks that can make the decision if this is a good and viable project. We've gone to them once with the initial information on our senior loan committee for CDLAC. Now we're back with hard core numbers that are -- consider them to be final draft.

And then once we go through that process, if that -- if they're -- they may have comments or questions or issues that we haven't addressed, we address those, we make modifications, and we prepare for your board binder due date, which JoJo, she's on it. So we make sure that you get it in a timely manner.

And our senior loan committee members, we see -- our goal -- it's not our goal. Our requirement in the program is to make sure that our members have them at least 48 hours, two days, prior to our senior loan committee meeting, not the day of.

And then we're with you at the Board meeting. So, you know, at the end of the day, you know, there's a public purpose here. You know, with -- with our projects going -- given the fact that we're going to CDLAC, we have a Board meeting, you know, affordability, you know, gross resource services.

And for CalHFA, we're extending affordability, whether it be recapitalization of the project, extending it more, or a new acquisition. And also it's generating income and fees for the Agency, given our interest rate spread and fees that we're generating. Because at the end of day, we get paid. We get paid. So when you have that final project, that deliverable, in your binder, you know that it's taken at least three to four months of detailed analysis. This isn't check the box, push the numbers in, turn the grinder, we have a project. No, it's more than that.

If something came up to me like a July 1st deadline, I don't think -- reasonably I don't think we would be able to make it. I think we would push it to the fall, a later date, but doesn't mean we don't try.

MS. PATTERSON: What's your application process? Do you have -- is it basically over the counter where --

MR. MORGAN: Yes.

MS. PATTERSON: -- they can apply anytime or --
MR. MORGAN: Yes.
MS. PATTERSON: -- do you have certain --
MR. MORGAN: No.
MS. PATTERSON: -- times of the year?
MR. MORGAN: No. They can come in anytime, but we always start with the Board meeting and the CDLAC meeting and work backwards. And CDLAC's doing that too, obviously.
MR. BELL: If you were to put buckets on the table, which bucket would have the most demand? Is it for the acquisition, or is it for the -- for the refinancing? And what sort of demand are you seeing from developers?
MR. MORGAN: For us, the feedback that we've been receiving and also the demand we've been receiving is for acq rehab. Our own portfolio, we -- our own portfolio hasn't been allowed to prepay for years. I mean, we've considered a prepayment if -- if -- we would consider prepayment if CalHFA was to be a lender, up until 2008. After 2008 we were kind of on hiatus and -- and now we have projects in our portfolio that are in need of serious recapitalizations, so everything we do is going to be acquisition rehab.
And there's a demand. We have about 12 to 14

projects that couldn't make last year's time line that are teed up, ready to go for 2013. We also want to have -- to meet the -- we also want to be able to compete and have new projects in addition to recapitalizing our own projects in our portfolio.

MS. PATTERSON: So you aren't doing new construction?

MR. MORGAN: Not for -- not for 2013.

MS. PATTERSON: You're just focusing on acq rehab and recapitalization of the existing portfolio.

MR. MORGAN: That's correct.

MS. FALK: Why don't you do new construction?

MR. MORGAN: We -- the HUD -- the HUD risk-share product that we have is for sub rehab only.

MS. FALK: Okay.

MR. MORGAN: And it doesn't -- it doesn't allow for new construction.

MS. CAPPIO: We don't have quite the liquidity yet. Yet.

MR. MORGAN: Well, I'll let you say that. I didn't say that.

MR. HSU: Said a different way, Janet, when we do have a construction program, the loans are uninsured because we can have risk share on it. And plus we finance them with the variable-rate bonds, so it's not the time to tap back into that world.

CHAIRPERON CAREY: Thank you.

MS. CAPPIO: Thank you.

MS. ALVAREZ: Hello, I'm Margaret Alvarez. I'm not on the agenda, kind of consider it overtime, but we've got five minutes.

Okay. So I represent the asset management division, and I just wanted to provide an overview of what our division does. We have 28 staff positions. Half of us are in Los Angeles, the Culver City office, and half are in the Sacramento office. I reside in the Culver City office, and Chris Penny back here, if he waves his hand, is in charge of the Sacramento office and all the staff, actually. He's No. 2 in command.

The purpose of our division is to preserve the assets through the life of the loan through financial, physical and tenant compliance -- monitoring. We make sure that the units that they said were going to be available for low-income tenants are actually available and that they're in good, decent, safe, sanitary condition.

We also serve as the contract administrator on HUD's behalf for our Section 8 portfolio. And we in a true sense are a contract administrator on that. We actually earn about a million-three a year in admin fees for overseeing that portfolio, and quite a bit of our time is devoted to that particular pursuit.

We like to consider ourselves partners with others in the Agency. Asset management is one of those divisions that gets to be involved with several other divisions in the Agency. And we also like to consider ourselves partners with the management agents and borrowers. We have a pretty good working relationship, I think, with all those classes of groups.

Currently we have 480 assets in our portfolio. 115 are Section 8. We have 25 new MHSA program projects that just came in in the last year or so. Many more to come on that. And that leaves 340 non-Section 8 or what we used to call our 8020 portfolio. And the Agency's regulations are that 20 percent of the units have to be set aside for tenants at 50 percent income level or less.

In the olden days, early 90s and before, we had what we called plain vanilla projects where they really truly were 80/20. Since the late 90s into the 2000s and today, almost everything that comes in our door has many financial layers, and it's virtually 100 percent affordable. It's regulated by us or somebody else.

So your oldest asset still on the books is from 1979. Most are two- or three-story garden style, although we do have quite a few high-rise and some mixed use. The smallest port -- the smallest building is five units, and the largest is 528 units located in Los Angeles. We also have several that are in the three and four hundred range that are in the San Jose area.

We have a total of almost 38,000 units, and the average size of the properties is 78 units, which has also increased. When I first started with the Agency, the average was a little under 50. So your buildings over the years have gotten bigger.

So our division falls into four broad categories, the first being the asset managers that oversee the financial aspects of the projects. They're the ones who work with the management agents and owners from a financial perspective on monthly operating statements, year-end audit review, reserve for replacement requests for capital improvement projects, and we oversee the remittance of earned surplus funds.

And those earned surplus funds where owners have limited distributions come to the Agency, some of the money goes to HUD; some of it belongs to the Agency. We actually use that pot of money to do capital improvement projects where needed, when people aren't going to fully recapitalize, they just need a little bit of assistance to fix a roof or something else that they didn't have enough money in their reserves to do.

Our inspectors go annually to inspect the buildings from top to bottom and make sure it's clean, safe and sanitary. They follow up on building deficiencies throughout the year, so if there were things that were kind of -- had a warning label placed on them, they do preventative maintenance follow-up and work with the management agent on capital improvement planning.

Our occupancy unit, the -- does primarily the Section 8 that I mentioned earlier. They actually administer the monthly vouchers, which are the subsidies from HUD for the rents. They're experts in the HUD regulations and handbook, and they go to the projects every year and actually go through files -- it's a requirement of HUD -- and make sure that things are in order and people that live there meet the requirements of HUD.

We also have compliance people that focus on the non-Section 8 part of our portfolio, that 20 percent at 50 percent. We have annual compliance on that. We also do some monitoring for CDLAC, for Citibank who we sold some loans to, and that type of thing.

The fourth area is tenant relations. We have by statute required what they call a tenant liaison, which is between the Agency and the Section 8 building. And so what that tenant liaison does is allows the tenants of Section 8 buildings, if they have a complaint against management for their rent or something else going on at the building, they can call the Agency and ask for help, mediation.

If things progress, they can have what they call a grievance hearing, and we actually have people throughout the state who volunteer to be a grievance hearing officer, and they'll go and meet at the site and mediate the two sides. That used to happen more than it happens now. We don’t have many requests for that anymore, but we still allow it. Those hearings are nonbinding, so if the management company at the end of the day wants to proceed with whatever action, they are able to do that.

I'm sorry, I've got a scratchy throat today.

Other duties that we do, as Jim mentioned, we work with programs at the front end of a loan to participate in reviewing the budget and operating management, those types of things, and weigh in on the adequacy of replacements reserves. At the end of the loan, we work with them to facilitate collecting and sizing impounds for insurance, taxes, earthquake insurance, other things.

Asset management is the lead department on the Agency's work out committee, where we have projects that may be in peril financially or otherwise. In 2012 we only had one project go through that process, in San Leandro. Other years we've had more. But in whole, the Agency's multi-family portfolio is very successful. We've had, in the history of the Agency, six foreclosures. The latest one -- the most recent one was in 1997. The others occurred in the early 90s when income rates -- or interest rates, excuse me, shot up quite high and a lot of things were falling apart, as those of us in that time can remember.

We held those six REOs for almost ten years. We sold them at the top of the market in 2007, kept the compliance as part of the package and netted about $53 million for the Agency, which we used to help us with the problems we encountered in 2008 and beyond.

Okay. And then the last thing that I would mention is that since 1996 and '7 -- I think that was the Pete Wilson governor years -- the three sister housing agencies went through a process called Housing Task Force. Some of the people may remember that. The purpose of that was to coordinate efforts between the housing agencies so we could reduce redundancies and work together better.

I am proud to say we're one of the only pieces of any -- maybe the only piece -- left of that, with the efforts of asset management groups who meet annually. Chris Penny, on CalHFA's part, is our representative on that. But every January we meet with our inspection schedules for the year, and we all try to coordinate who's going to go where. If at all possible, we try to go together. In some cases we do the work for the other sister agency. And when we're done with our reports and compliance, we share that knowledge with each other. So we have a pretty good working relationship on the asset management side with all our sister agencies, and that's continued from 1996-7 to today.

MS. PATTERSON: So that's HCD --

MS. ALVAREZ: TCAC.

MS. PATTERSON: Okay.

MS. ALVAREZ: That concludes my five-minute overtime remarks, if there's any questions.

CHAIRPERON CAREY: Do you have a question?

MS. PATTERSON: The contract-based Section 8 -- project-based Section 8, I know that they were looking for housing finance agencies to do that statewide. Are we doing -- is CalHFA providing the project-based Section 8 administration statewide?

MS. ALVAREZ: All the old Board members can take a nap. We've applied for that twice now. We've spent probably three years of our life in asset management applying for that, only to have HUD stop the process and not go forward. The most recent was early 2012. We thought we would get the notice by October 1st and be rolling out, being the PBCA, but that didn't happen. It's on pause again from HUD, and we're just waiting.

MS. PATTERSON: And so they -- was it just for the western region, or was that nationwide that they were --

MS. ALVAREZ: It was nationwide.

MS. PATTERSON: Right. I remember it, so that's why I was like what happened with that? They just put the --

MS. CAPPIO: Stop, start. Stop, start. The lawsuit.

MS. ALVAREZ: It was started as what you would call a procurement. A lot of states began to take the heat. There was a few lawsuits filed, and then HUD decided that it wasn't a procurement, it was a grant, so it went out as a NOPA, and we all replied to the NOPA, which was totally starting over from scratch as far as our response. And then the states kicked their feet and lawsuits were filed, and the GA -- GAO's office got involved, and everything's just on pause.

MS. PATTERSON: And so the contract administration -- because I think there's two in California.

MS. ALVAREZ: Yes.

MS. PATTERSON: They're continuing to do that for us?

MS. ALVAREZ: Yes.

MS. PATTERSON: Okay.

MS. ALVAREZ: There were a handful of states that didn't file lawsuits, and then were -- they were the only one entity to apply to do the PBCA two years ago now. They were granted that, and they -- they got that new contract that we had hoped to get two years ago.

MS. PATTERSON: Because what is that, about 14 million? What is that annually?

MS. ALVAREZ: It's based on what you bid, and since this is open record, I will not disclose, I guess. But we had a pretty good bid. Actually, the first time around we had the lowest bid in California.

We lost by I think it was one hundredth of a point.

MS. PATTERSON: A dime.

MS. ALVAREZ: Yeah, we lost by a very tiny, miniscule number. It was very depressing.

MR. BELL: Are there any projects that are leaning toward the impaired list, or is the portfolio very solid?

MS. ALVAREZ: Well, that's an interesting question. If you look on paper, you might say the portfolio maybe was solid and maybe wasn't. We have maybe 60 projects that don't operate at a 1.0 debt coverage ratio, but they've never been in default. A lot of our projects are owned by nonprofits, and they feed them. And we've never not gotten a payment, and they just roll along.

There are a lot of buildings, since we haven't allowed prepayment and we don't have an in-house refinance mechanism, that need capital improvement, recapitalization, partners want out, et cetera and so forth. That's -- those are the projects that they're trying to capture in our preservation program.

We also, at the Board's direction a few years ago, were asked to consider the fitness of our chains on the prepayment policy, so there's been a group of us that have been meeting for a couple of years. I think this is our third year of our pilot prepayment program, and we've let projects out if they've reached 23 years of maturity, seven years to go. And we've had maybe six or eight projects take us up on that and prepay at the end of their -- almost end of their loan term so they can go out and get recapitalized by someone else. So I would say that's been fairly successful.

And then on a more broad basis we've been discussing all those things.

MR. BELL: Thank you.

CHAIRPERON CAREY: Okay. Thank you.

And next up is Di Richardson.

While we're changing those, I think for the record Jack and I would both prefer to be referred to as long-term Board members.

MS. ALVAREZ: Point noted.

MS. CAPPIO: Seasoned.

CHAIRPERON CAREY: Yes, seasoned.

MR. HUNTER: We also shouldn't talk about 1990 was the old days.

(Laughter.)

MS. RICHARDSON: Well, at one point she mentioned the year, and I thought, "Hey, I was born that year," and then I thought, "Actually I was graduating that year. How did that happen?"

So, Mr. Chairman, Members, thank you very much.

I didn't actually prepare comments. I'm just going to try to keep this pretty casual. Some of you are familiar with the Keep Your Home California program, some of you less so. And I'm just going to give you a little bit of history.

Those of you that were here, you'll remember we had a call from the Department of Treasury, and they said, you know, "We're kind of thinking about putting together a program to give states the money to help with their foreclosure problems. Is that something you would be interested in?"

And we said, "Sure, we'd love to talk to you about that." And then like two days later, the President had a press conference and announced it. So, you know, we had to react very quickly and put together an application.

One of the first things we did, these funds are actually TARP dollars, and so their use has to be consistent with the EESA statute, Emergency Economic Stability Accountability statute. And as you all know, every HFA in the state -- in the nation is set up a little bit differently. Some of them are state entities. Some of them are completely independent. Some of them are quasi-state government. They're all a little bit different.

So one of the first things that we had to do was look at whether or not we could accept the funds under the EESA statute. And if you'll recall, that was originally -- those funds were originally the funds that were used, the TARP financing, to bail out the banks. So one of the things was you had to be a financial institution as it was defined under the EESA statute. And that would have required that the eligible entity not be -- 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.

So based on that definition, we could not have received the funds directly at CalHFA. So our legal counsel scrambled, and, you know, we got together with another -- we brought in some outside counsel, and we created a separate 501(c)(3), the CalHFA Mortgage Assistance Corporation, so that we could accept what at that time was going to be $700 million. There was no way we were going to leave that $700 million on the table when, you know, we had so many California borrowers in need.

So that's sort of the genesis of how -- we call it -- CalHFA MAC was initiated. And it is a board that has separate -- you know, it's governed by a separate board, and it has officers. The board -- when it was originally created, all of the board members were senior-level CalHFA staff. We -- it -- at some point in talking to Treasury, they said, "You may want to think about, you know, maybe expanding that a little bit and bringing in a little bit more diversity."

And we did that. When -- when Lynn Warren moved over to HCD, he, you know, was intimately familiar with this program, so we asked him to be on this board so that we could have that continuity. And also Jan Owen as the commissioner of the Department of Corporations in her role in regulating state banks, we thought, you know, she would make a great partner.

We recently had another one of our board members -- Howard Iwata was on the board, and he was, you know, not -- he was sort of not interested in continuing to serve in that capacity and asked us to think about that. So we were thinking about who would be a good replacement for Howard, and, you know, I have to say being completely selfish, I tried to think about what do I need for this board? You know, who would be a really good partner? Who -- whose help do we need in really, you know, getting the word out about this program? Who has a similar constituency that we can sort of take advantage of? And I think we talked about the fact that in the past we have not had as much cooperation from the EDD department as I would have liked or as some other states have enjoyed.

And so we -- we found this gentleman at EDD, a senior manager at EDD, Greg Riggs. He's the policy and compliance manager. We talked to him. He was very interested in joining the board. He was recently appointed and is our newest member of the board, and that's already paying off greatly.

One of the things that he's been talking to his senior managers about is potentially -- you know, they've been reluctant to include flyers in their mailing because they think they can't include anything else because it's paid for with these federal dollars. So -- and I -- I have to say luckily I've never received unemployment benefits, so I'm completely unsure how it all works, but I learned you get kind of this workbook when you file for unemployment. So they're -- they're now talking about including a page on the Keep Your Home California program in that workbook, which just is a natural fit for us.

They're also talking about how -- you know, sending people bookmarks that they could put in those books, those that don't have that page at this time.

They're also thinking about having what's called laser printing on the back of the envelopes, on all of their envelopes that go out from EDD, saying, you know, if you're having problems paying your mortgage, you want to check out this program. We'll be really, really happy if that happens.

So, again, just having that, the addition of EDD on our -- on our board, I think is going to make a really big difference in -- in how we're able to get the word out to the unemployed community. They've already -- another thing is we've really tied in with all of the rapid response teams throughout the state. When there's a big layoff, they send out these rapid response teams to let people know what kind of benefits are available to them. And we've become very tied into those and making sure that we either have somebody attending those meetings for us or at the very minimum that they have our information.

So taking a step back, you know, the initial allocation when we were getting ready -- when we were first applying was, again, they were talking about giving California, you know, about $700,000. And then in September they added an additional 476 million that was -- that was earmarked specifically for the unemployed population. And then later that same month, later in December, they decided, oh, what the heck, we're going to give you another 800 million. So suddenly what we thought was going to be a $700 million program is now almost a $2 billion program.

And we have four -- we've created four core programs that we're operating. And we also did an RFP for three additional programs, which -- which I'll tell you about. But our four core programs are the Unemployment Mortgage Assistance Program -- this is a program if you're currently unemployed and collecting benefits from EDD, you can apply for this assistance, and we can make your payment up to $3,000 a month for up to nine months. We're finding that this is just, you know, giving those homeowners a chance to get out there and focus on looking for a job and resolving their job situation without having to worry about feeding their kids or paying their mortgage or what they're going to pay next.

That has been our most successful program to date because it is a program that -- I mean, all the lender has to do is accept the money. All of our programs require lender participation. The funds have to go to the lender. They cannot go directly to the borrower.

The second program we have is the Mortgage Reinstatement Program. When we were originally rolling out our programs, we held forums up and down the state, talked to different people, asked them what they thought was needed. One of the things that we heard from a lot of housing counselors was a reinstatement program. You know, borrowers had just fallen into -- fallen behind. They had some minor incident come up that caused them to miss a payment and if you could only give them $5,000 to reinstate them, they could make it going forward.

So with our reinstatement program we started it at $15,000 and moved it up to $20,000, and it's now at $25,000 because really a lot of these borrowers are much further behind than any of us ever thought. So if you're off work a couple of months or you have some big medical expenses, it just doesn't take much. You know, a lot of people live paycheck to paycheck. So under that program, we will reinstate a loan up to $25,000.

This program actually sort of has two paths that the borrower could go down. We can fully reinstate them, if that's all they need, or we will work with their lender if they need a modification, because we want to see that they can make their payment going forward after we reinstate them. We're never going to reinstate somebody if they can't -- if they can't demonstrate that they can make their payment going forward.

The third program is our Principal Reduction Program. This is the program that when we originally rolled it out we required the lenders to match dollar for dollar whatever we gave, and that turned out to be a huge impediment for any number of reasons. And, also, if you look at the pie of loans that servicers service, there's a very small slice of that pie that they actually own and control. And so those are the ones that could have participated and that they would have been willing to make a matching payment for.

Unfortunately, a lot of them, you know -- if they had a lot of GSE-owned loans, Fannie and Freddie. Fannie and Freddie were not willing to participate, and they didn't want to create disparate treatment for their -- for their borrowers and say, you know, yes, we'll do yours; no, we won't do yours.

So that, coupled with the Attorneys General settlement that came out, when that happened, lenders made it very clear to us that, again, they were just going to push our stuff on the back burner because if they didn't comply with the Attorneys General settlement, they had significant penalties that they were going to face.

I do not have the authority to force anybody to comply. I do not have the authority to impose any penalties for not complying. So, you know, we sort of joked I hadn't found the right shade of lipstick to put on this baby to make it attractive to them. And so what we did was we eliminated the match requirement. We upped it to a hundred thousand dollars. That was always sort of what we knew it was going to take. Before it was at 50, 50 from us, 50 from the lender. So we kept it a hundred thousand.

And we originally paid the assistance over a three-year period. That turned out to be an impediment for Fannie and Freddie's participation, so we said, you know, we've got to get in that pool. We're going to pay the money all up-front. So the money now gets paid up-front. It's a hundred thousand dollars, and Fannie and Freddie are onboard, which is huge.

We currently have over a hundred lenders participating in all of our programs altogether, and about 50 are participating in the Principal Reduction Program. The only large lender not currently participating is Citi. I think that that's going to happen any day. And they are staging their participation. Most of them are participating in the recast provision where if we can, you know, bring the loan current and get loan to value down under -- the DTI under 38 percent, as long as we don't go below 105 on the DTI, they will take that money, recast that loan, and give that borrower a new -- a new lower payment that they can afford.

MS. PATTERSON: Are you having success --

MS. RICHARDSON: Yes.

MS. PATTERSON: -- with these changes?

MS. RICHARDSON: Yes.

And I -- so for the longest time our pipeline -- the biggest part of our pipeline was UMA, and it has shifted. So now our pipeline, the biggest part of our pipeline, probably 60 to 65 percent, is on the MRAP and PRP side. So it's definitely shifted. We think that's very good. Those loans obviously take longer to complete. There's more documentation that's needed, but we're definitely, you know, with -- with the lenders, the number of lenders increased, it's -- we're very happy. We think this is our year. We're definitely moving in the right direction.

The final program that we administer is the Transition Assistance Program. This is for borrowers who, you know, are not -- they know they can't save their home, but we do not want them to have that black mark of that foreclosure on their record, if we can help it. So if we can convince -- you know, if they can convince their lender to do a short sale or a deed in lieu, we'll pay them up to $5,000 to help them transition to a different living situation. That is also picking up significantly, I will tell you.

Another thing that I think that's happened that I personally view as a very big success is we're seeing a number -- when we give our assistance, we put a lien on the property, you know. And it's forgiven after a period of time. For the UMA and the MRAP, it's three years. For the PRP, it's five. Because it's a hundred thousand dollars. We are now seeing that we -- you know, for those lenders -- for those homeowners that are only getting a recast from their current lender, they're then able to go to another lender and actually get a true modification with a better interest rate, and we are subordinating like crazy. So we think that's just a win-win for us.

The other piece of our programs, we did an RFP at the very beginning and solicited proposals. We chose three programs that are called our Local Innovation Fund Program. The first program is a program that is run by Community Housing Works out of San Diego. That is a program where their -- they will -- we just amended that program. They do it on a 40/60 match to eliminate junior mortgages to facilitate re-fis, short sales, whatever they need to do. These are loans that are not available for modification under 2MP, but, you know -- so a lot of them are smaller community banks or they might be more junior than a second loan. But, again, it all adds to that homeowner's debt. Because we're trying to bring their overall debt down.

The second program is the NeighborWorks lease-to-own program where they're working with banks to try to convince them to sell them some loans at a discount. We work with those borrowers to, you know, improve their credit, at least leasing the home to the borrower at that time and then re-selling them to the borrower. That has not proven to be successful because most banks are unwilling to do -- they said that's not an arm's-length transaction, and they're not willing to do that.

The third program is a program out of L.A. You guys were -- you know, you that have been around for a while will remember they started out -- they were convinced that they could do principal reduction 6 to 20 cents on the dollar. It -- they haven't been successful. We haven't seen any transactions from them yet. They're going back, you know, looking at their -- at their program.

MS. PATTERSON: Was that the Enterprise one and working with that -- that group that was actually getting the -- the First Look Program, I thought it was? There was an Enterprise Group that worked with NeighborWorks to -- and they thought they could get a discount from the banks.

MS. RICHARDSON: This wasn't -- this wasn't really Enterprise. This is a program that a group that worked with L.A. Housing Department, OneLA --

MS. PATTERSON: Okay.

MS. RICHARDSON: -- down in L -- Los Angeles. They worked -- they did have a commitment for a time from Bank of America, and they were going to create a pilot program within two council districts. And it's my understanding that because such a long period of time has gone by, Bank of America has withdrawn their participation.

So, again, we're talking to them to try to figure out if there's something that they can do, but it has to be different than what we're doing on a statewide basis, and it has to be different than what HAMP is offering, and that space is getting a little bit smaller.

MS. PATTERSON: So do they have a certain amount of time so they can come up with something successful or do you --

MS. RICHARDSON: Well, you know what? That clock's -- that clock has already ticked off. But I'm being flexible because our program took a little longer than we thought as well. And I will be willing to allow that -- those funds to stay allocated for that purpose until I need them for something else. And at the rate that our program is going, you know, I do see that those funds -- there's a very likely scenario that those funds will be need to be moved.

MS. PATTERSON: So you have the ability to recapture those funds, basically?

MS. RICHARDSON: Yeah, I do need to go back to Treasury every time we do that. I can't get any more dollars, but they are willing to allow us to re -- reallocate within the pools that have already been approved if something's proving to be very successful.

CHAIRPERON CAREY: Mr. Bell.

MR. BELL: Di, I have a question about fraud, and one is borrower fraud, and the other is fraud by scammers out there in the real world. First is what checks and diligence do you use to make certain that you're not -- your moneys are not used by people who are defrauding the system? And secondly, are there -- are there groups out there -- because in my world there are lots of groups that purport to be related to a government agency and then they say, "We'll help you, just give us an advance fee" and then do nothing. Are you seeing that?

MS. RICHARDSON: Well, we see it once in a while, and we actually report them to your office because we work closely. We have a compliance manager and a compliance group. We have a red flag process if a borrower comes in and it looks like they doctored the -- you know, the paperwork that they're submitting, we're not going to fund it unless they can provide us something that shows that we're wrong. So -- and -- and when we do suspect fraud, we report it to DRE, we refer it to the AG's office, and we report it to Treasury.

MR. BELL: Thank you.

MS. FALK: I was just wondering how many borrowers have you helped to date and what's you --

MS. RICHARDSON: To date --

MS. FALK: -- what's your projection for the --

MS. RICHARDSON: Well, we think with -- with the -- because we increased our -- you know, our 50 to a hundred, that obviously took the number down. We think it will be about 80- or 85,000 people. And to date we've done about -- we've funded about 21,000.

MS. FALK: That's a lot.

CHAIRPERON CAREY: Do you have a question?

MR. JACOBS: One question in terms of how borrowers have gotten into trouble, what's the breakdown in terms of job loss, unexpected circumstance or just unrealistic underwriting?

MS. RICHARDSON: Well, I'm going to -- for one thing, our -- our program -- for this program, we have made a distinction that it -- that you can't -- being underwater in and of itself is not a hardship. If you made a contractual obligation and you have the ability to make that payment, you're not a good candidate for our program.

So obviously because our unemployment program is the most robust, that's -- you know, that's been big. I'd say job loss is very high. A lot of people have found new employment, but they're making less money. They've had to sort of, you know, take a different tack.

And I think that, you know, we're seeing a lot of people that have had medical expenses that caused them to fall behind. We try to be very flexible in the definition of a hardship because -- you know, we follow the Treasury guidelines, but if I gave a prescriptive list, somebody would come in with something that I would miss. So we try to let the borrower make their case and show us that they truly suffered a hardship. And it can be a loss of income, and it can be I've had -- my payment's gone up. You know, I had an interest-only type loan and my payment's gone up and my income hasn't. To me, that's the same thing.

CHAIRPERON CAREY: Okay. Thank you very much, Di.

And I think we have one more presentation from Victor. In the interest of moving along, I think Victor and I have agreed to go -- put his presentation off till the next meeting, focusing on -- on sort of the public requirements, focus on those issues we have to deal with. And I think it will be good for us, particularly new Board members, to understand Bagley-Keene, that sort of thing, but we'll continue that to the next meeting, if that's that okay with folks.

MR. JAMES: Mr. Chair, the one comment --

CHAIRPERON CAREY: Yes.

MR. JAMES: -- I would like to perhaps suggest to the board, since we do have a couple new members, is draw your attention to -- you each received the orientation binder. And the very last document in that as Attachment C is a handy guide to Bagley-Keene. I really recommend reading that as well as there's a -- there's also a handout in here that talks generally about board governance, which kind of touches on a lot of the issues that you folks are -- were keying in on today in terms of strategies that we may or may not want to get more involved in. So reading those two things might give you some ideas for our next meeting.

CHAIRPERON CAREY: There's also information on financial disclosures.

MR. JAMES: Yes.

CHAIRPERON CAREY: And looking at that ahead of time because it becomes difficult at that -- at that moment.

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Item 7. Reports

CHAIRPERON CAREY: Okay. With that, we have the standard reports. I don't know if there are any questions related to those reports, but -- we're eating candy, so my guess is there's not.

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Item 8. Discussion of other Board matters

CHAIRPERON CAREY: Other Board matters, I would -- I'd like to give an Audit Committee update.

And I've asked Matt Jacobs to join the Audit Committee as the chair, and he's agreed. Thank you very much. And so that committee is set.

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Item 9. Public testimony

CHAIRPERON CAREY: Then we move on to public testimony. This is an opportunity for members of the public to address the Board on matters that are not on the agenda. And I understand we have two people who specifically requested to speak to the Board, David Mandel and David Madriz.

And I would ask you in view of the time, the constraints, that you keep yourselves within ten minutes, understanding that the Board cannot act on any matters that are not on the agenda. We can take your input, but are not unable to act.

MR. MANDEL: Sure. Thank you very much. I appreciate the opportunity. Ten minutes is more than I was expecting.

CHAIRPERON CAREY: Take five.

(Laughter.)

THE COURT REPORTER: Excuse me, could I get your name, please.

MR. MANDEL: Sure, it's David Mandel.

THE COURT REPORTER: Thank you.

MR. MANDEL: I -- and I understand this is just an informational item because if a decision were made, it would be by the CalHFA MAC board, not this one, but I -- I -- I really think and hope that you'll be interested in hearing some ideas that we've been thinking about for a while and felt like we really wanted to bring this forth to CalHFA personally because we found out -- David, can I have one too? -- we found out that -- that the Keep Your Home California program that Di just explained, in another state, in Oregon just to our north, they have some similar programs. But they also instituted another one, which I think is a really -- sets a really important precedent in a model that I hope California will be able to follow.

So the page you've just gotten gives a one-page -- Oregon's own one-page description of that. And if you turn the page, it has kind of this outline of some ideas that I would want to present what California might want to do. And by the way, my name and contact information is at the bottom, if anybody wants to -- for further information or more extensive discussion than there's time for today.

I've appreciated sitting in on this meeting, by the way, the first time I've come to such a meeting, to really get a bigger picture of what CalHFA does and the complications and difficulties that you face in trying to create and sustain affordable housing in California. I myself have benefited from what was then called a CHAPA loan, when I bought my condo 20 years ago, and I still live there, and I have since paid the loan off. It's not one that -- that you lost any money on.

As -- the -- on the -- on the side that I wrote of the thing, I don't want to -- maybe I use the word there that's a little bit too harsh, shortcomings of the current Keep Your Home California program. It has been a fantastic program that's been able to do things that other programs have not done, especially since the evolution of the Principal Reduction Program to the point now where a lot more people are eligible and more lenders are participating.

But -- and it has -- and it has certainly helped a lot of people, but it -- it also -- it has some limitations in that -- as Di herself mentioned, the money needs to go directly to the lenders. It doesn't -- it doesn't -- and -- and coupled with that, it does not ensure that there's any kind of a permanent solution, a permanent modification. So, for instance, even if somebody gets a hundred-thousand-dollar principal reduction and even if that brings them down to nearly current value and obligation, the -- the minimum is 105 percent, I understand -- their loan -- their payment may still be unaffordable, and the lender may still not be willing to modify the terms of the loan to bring payments -- to make the payments affordable.

There are still -- in addition to the millions of people who have lost their homes in the country, there is still a huge backlog of what they call often the shadow inventory of homes that are likely or certainly quite possible to go into foreclosure, including a great many in California.

So the program that Oregon developed basically uses some of the same funds, the Hardest Hit state funds, and working with a financial institution partner, after qualifying homeowners to -- to know that they could afford a loan at the current market value of the property, this partner negotiated with the lenders to buy the properties, resells them on the same day to the homeowners and writes a new loan based on current market value.

This is a much -- a quantum leap. It's a sustainable solution for people who can qualify for it because their payments definitely do go down. It's -- it's a new loan based on the current market value, and in many cases that has reduced the amount owed well over a hundred thousand dollars in Oregon. And something similar in California would do that too. Our -- our prices are still up pretty high, high-cost market in many cases, and throughout California many people are underwater by well over a hundred thousand dollars, and these are not rich people.

So this is something that Oregon is doing. We understood at the beginning of the Keep Your Home California program that there was difficulty in using this -- the TARP money for loans as opposed to giving it to the banks. The Treasury had a problem with that, but obviously they no longer have that problem with it because Oregon is doing it. And we hope that California will do it as well, because this -- the benefit here entirely goes to the homeowner. The money is -- is -- is a loan.

It's a much larger allocation of money but there's two big advantages there. One is it will ensure that the -- the $2 billion that is in the Keep Your Home California fund will actually be spent. Up till now a fairly small minority of that has still -- has still been spent, and it needs to be spent by 2017, I understand.

And, finally it -- it will be a much, much wider benefit not only for the individual homeowners who get a sustainable solution, but the communities as a whole benefit from the greater stability. It will really cut down on the number of foreclosures, and the economy as a whole could benefit from citizens being less burdened by their debt.

Exactly how it would work in California, I don't know the -- the workings of the governance and whether Oregon is set up the same way as California. That's beyond my knowledge. I leave that to -- to -- to this Board and to the CalHFA MAC board to figure out how to do too, but the point is if Oregon's doing it, I'm sure there's a way that California could do it as well.

And finally -- and I'm not going to go through this point by point because I don't want to take too much time. If there are a couple of questions, I'm happy to answer them. But the last Roman numeral IV on what I wrote gives possible options that would -- could expand the reach beyond what Oregon does. Oregon's a very small pilot program. They've only -- they just recently got started, but they've only done a few dozen homes so far. They are hoping to expand it. So far it's a pilot project in two counties in Oregon. They're hoping to make it go statewide.

But there are other things that could be done.

I just explain them in these points, one of which would be to consider doing the same thing even for people who are -- who have higher incomes and are perhaps not behind on their loans, though they're very far underwater and struggling to make the payments, so far successful in making the payments. Their incomes are higher, but they also got burned by purchasing or refinancing at the height of the market or predatory lending or a combination of those things. Those people would benefit, and the economy would benefit if those people could shed some of this huge debt they have by being underwater. With their higher income, the program could perhaps develop a system where there would be some kind of a sharing of the future appreciation, and the homeowner would get some of that and the lender -- be it CalHFA, CalHFA MAC or whoever, I'll let you work that out -- could get some of that appreciation.

And in any event, by using this for loans, that money eventually gets repaid, which means it's -- it's -- it's recycled. It can be available for future lending through this program or as circumstances and times change through other programs. As I heard loud and clear in the previous presentations, you're always looking for sources of funding to loan out for affordable housing. This could then be converted into that in the future.

Of course, you'd have to negotiate with Treasury on exactly how to do that, and there's plenty of -- plenty of work to be done, but the basic concept is this. It's being done in Oregon. I hope that California will be able to do something -- something similar.

And I'd just call your – again, I won't go through it, but again, call your attention to the very last point, F under Roman numeral number IV gives some ideas about how the reach could be broadened to help people who are currently in trouble with their loans and could not even qualify for a loan at current market value. There are some other solutions that could be explored and I would hope broadened to keep them from losing their houses because that's -- that's the ultimate goal of what we're -- we're trying to do here.

CHAIRPERON CAREY: Great.

MR. MANDEL: Thanks.

CHAIRPERON CAREY: That was exactly ten minutes.

MR. MANDEL: Wow. I didn't even look at my watch.

CHAIRPERON CAREY: Are there any questions or comments from the Board members?

MR. MADRIZ: Can I add 30 seconds to this?

CHAIRPERON CAREY: Yes.

MR. MADRIZ: Between me and Davis Mandel -- Mr. Mandel is formerly the -- he headed the California Senior Hotline, Senior Legal Hotline, and the National Senior Legal Hotline. Between me and him in California since 2008 since I became a certified housing counselor, we have over a million dollars of principal reductions in what we call a short pay off, a reverse mortgage.

Using David's proposal like the Oregon HFA, what's being used over there, I think will reach that 63 percent of the -- of the borrowers are applying are being denied for the Keep Your Home California program right now to have a chance, a real shot, to stay in their homes. And that, I think, will stabilize the housing economy. And these seniors are losing their homes. They're actually being thrown out on the streets right now.

And -- and there's not a program -- the -- the Keep Your Home California program as of right now, to my opinion -- I read the audit report from Keep Your Home California's own website, it's -- it's only going to the top 1 percent earners of the pool of people that are being foreclosed right now.

And I just want the Board to try to lobby CalHFA MAC to try to come up with a program that will help low income, the family with children and seniors, because if we don't help them now, there's not going to be money I see coming in the future, and it's going to -- they're going to move into nursing facilities. It's going to cost the state, the county, a lot more money.

And I would appreciate any help each Board member can do out the time -- outside as a Board member to see how could we work together with CalHFA MAC and other entities in the state of California to copycat what Oregon did.

CHAIRPERON CAREY: Thank you.

Any further comments? Questions?

MR. HUNTER: I assume staff can give us a response to that next time as to what the roles could be?

CHAIRPERON CAREY: Yeah. Staff can get back to us with some clarification of the CalHFA MAC position on it.

MR. MANDEL: If people want to go into some more depth, I have -- I printed out one copy here, and I have copies online that I can send to anybody -- of the agreement between the Oregon Housing Finance Agency and the -- and the department that's working with them, the contract, and also the -- the funding agreement that applies for each -- each one of these transactions.

CHAIRPERON CAREY: If you would share that with the staff, I'm sure they'll look at --

MR. MANDEL: Yeah, I just have that one. I will send it -- send it -- forward it to you and if anybody else wants it, you can forward it on.

CHAIRPERON CAREY: Great. All right. Thank you very much.

MR. MADRIZ: Thank you.

MR. MANDEL: Thank you.

CHAIRPERON CAREY: Is there anyone else who wishes to address the Board from the public?

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Item 10. Adjournment

CHAIRPERON CAREY: Okay. Seeing none, we are adjourned.

(The meeting concluded at 1:27 p.m.)

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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 5th day of February 2013.

____
Yvonne K. Fenner
Certified Shorthand Reporter
License No. 10909, RPR

State of California

M E M O R A N D U M

To: Board of Directors **Date:** March 7, 2013

Tim Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL SINGLE FAMILY BOND FINANCING AUTHORIZATION RESOLUTION 13-02

Resolution 13-02 would give the Agency the authority necessary to finance the business plan and manage outstanding single family debt obligations. Resolution 13-02 is comprised of three articles providing appropriate levels of authorization for each of the following: issuance of refunding bonds for debt management purposes, issuance of MBS Bonds and provisions applicable to all bonds issued under the resolution.

The following paragraphs summarize the main authorizations contained in each of the three articles.

ARTICLE I - AUTHORIZATION AND TERMS OF REFUNDING BONDS

Article I authorizes the sale and issuance of refunding bonds to be issued in one or more forms similar to Article I through XII of the Residential Mortgage Revenue (RMR) bond indenture in an amount equal to the amount of bonds being redeemed in connection with such issuance. This authorization specifically prohibits the purchase of loans or mortgage-backed securities with bonds issued for debt-management purposes. It also prohibits issuing floating rate bonds to refund fixed rate bonds.

Under Article I, the Executive Director shall determine with each issuance of refunding bonds, that the Agency and its General Fund are not expected to bear greater financial risk than prior to the issuance of the refunding bonds. Notwithstanding the immediately preceding sentence, any Debt-Management Supplemental Indenture may provide for the deposit and/or pledge of unpledged moneys or assets of the Agency, provided that the Executive director shall have determined that any such deposit and/or pledge is expected to result in a net economic benefit to the Agency. The pledge may not exceed 10% of the principal amount of the bonds thereby refunded and $50,000,000 in aggregate.

This resolution also authorizes staff to amend, modify or replace existing financial agreements originally entered into to hedge interest rate risks, to provide liquidity support or to provide credit enhancement. The resolution prohibits an increase in either the aggregate notional amount of interest rate swaps, the absolute amount of liquidity support or credit enhancement.

ARTICLE II – AUTHORIZATION AND TERMS OF MBS BONDS

Article II authorizes single family bonds to be issued to provide sufficient funds to finance the purchase of new single family mortgage-backed securities.

Bonds are authorized to be issued as MBS Bonds (the "New MBS Indentures"), in one or more forms similar to Articles I through XII of the RMR Indenture. MBS Bonds shall be issued only as fixed rate bonds, and no hedging Instrument shall be entered into with respect to MBS Bonds.

ARTICLE III – PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Article III authorizes staff to circulate preliminary official statements and official statements relating to refunding bonds and MBS Bonds as necessary to prospective and actual bond investors. Bonds are authorized to be sold at negotiated or competitive sale as public offerings or as private placements depending on market conditions at the time of sale. The resolution also authorizes all documents and agreements required in connection with our homeownership lending programs.

The resolution further authorizes the Agency to conduct foreclosures of mortgages owned or serviced by the Agency and to enter into contracts necessary or convenient for the rehabilitation, listing and sale of foreclosed properties.

The resolution also authorizes the Agency to take further action related to prior bonds and related financial agreements that were authorized by prior resolutions of the Board and to amend, modify and replace those financial agreements deemed necessary in furtherance of the objectives of the single family lending program.

The resolution authorizes staff to enter into financial agreements that are related to the issuance of bonds as well as consulting services or information services related to the financial management of the Agency. This resolution also authorizes the payment of costs of issuance associated with the sale of all bonds and authorizes capital contributions from the Agency as necessary to issue such bonds.

In addition, the resolution reauthorizes short-term credit facilities in an aggregate amount not to exceed $200 million for operating capital and for the Homeownership Programs and Multifamily Programs.

Attachments

RESOLUTION NO. 13-02

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S SINGLE FAMILY BOND INDENTURES, THE ISSUANCE OF SINGLE FAMILY BONDS, CREDIT FACILITIES FOR HOMEOWNERSHIP PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance, directly or indirectly, to persons and families of low or moderate income to enable them to purchase or refinance moderately priced single family residences ("Residences");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of various programs, including whole loan and mortgage-backed securities programs (collectively, the "Program") to make loans to such persons and families, or to developers, for the acquisition, development, construction and/or permanent financing of Residences (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the purchase of mortgage-backed securities ("MBSs") underlain by Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

WHEREAS, the Agency, pursuant to the Act, has from time to time issued various series of its Home Mortgage Revenue Bonds (the "HMP Bonds"), its Housing Program Bonds (the "HP Bonds"), and its Residential Mortgage Revenue Bonds (the "RMR Bonds"), and is authorized pursuant to the Act to issue additional HMP Bonds, HP Bonds, and RMR Bonds (collectively with bonds authorized under this resolution to be issued under new indentures, the "Bonds") to provide funds to finance the Program;

WHEREAS, the Bonds may be issued for the primary purpose of purchasing MBSs ("MBS Bonds") or for debt management purposes of the Agency ("Debt-Management Bonds"); and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

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

ARTICLE I
AUTHORIZATION AND TERMS OF DEBT-MANAGEMENT BONDS

Section 1. **Determination of Need and Amount of Debt-Management Bonds.** The Agency is of the opinion and hereby determines that the issuance of one or more series of Debt-Management Bonds in an aggregate amount not to exceed the aggregate amount of Bonds and/or other qualified mortgage bonds (including bonds of issuers other than the Agency) to be redeemed in connection with such issuance is necessary to provide sufficient funds for the management of the Agency's existing debt related to the Program. In no event may proceeds of or allocable to Debt-Management Bonds be used to purchase Loans or MBSs.

Section 2. **Authorization and Timing of Debt-Management Bonds.** The Debt-Management Bonds are hereby authorized to be issued in such aggregate amount at such time or times on or before the day 60 days after the date on which is held the first meeting of the Board on or after March 1, 2014 at which a quorum is present, as the Executive Director of the Agency (the "Executive Director") deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the bonds are sold at a time on or before the day 60 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Debt-Management Bonds on or before October 1, 2015 upon specified terms and conditions, such Debt-Management Bonds may be issued on such later date.

Section 3. **Approval of Forms of Indentures Related to Debt-Management Bonds.** The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of Debt-Management Bonds, to execute and acknowledge and to deliver to the Treasurer as trustee and/or, if appropriate, to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee or co-trustee, fiscal agent or paying agent of the Agency (collectively, the "Trustees"), one or more new indentures, trust agreements or similar documents providing for the issuance of Debt-Management Bonds (the "New Debt-Management Indentures"), in one or more forms similar to one or more of the following (collectively, the "Prior Indentures"):

(a) those certain indentures pertaining to the HMP Bonds (the "HMP Indentures");

(b) that certain indenture pertaining to the HP Bonds (the "HP Indenture"); and/or

(c) that certain indenture relating to the RMR Bonds, as amended and supplemented (the "RMR Indenture"), other than Article XIII thereof.

Each such New Debt-Management Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any New Debt-Management Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Debt-Management Bonds if appropriate in furtherance of the objectives of the Program; *provided* that such provisions may be therein included with respect to such Debt-Management Bonds *only* if and to the extent any such provision was made with respect to the bonds thereby refunded, and *provided further* that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Debt-Management Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the bonds thereby refunded. *Notwithstanding* the immediately preceding sentence, any New Debt-Management Indenture may provide for the deposit and/or pledge of unpledged moneys or assets of the Agency (which may include mortgage loans and/or mortgage-backed securities) to additionally secure Debt-Management Bonds if appropriate in furtherance of the objectives of the Program, in an amount not to exceed 10% of the principal amount of the bonds thereby refunded; *provided* that the Executive Director shall have determined that any such deposit and/or pledge is expected to result in a net economic benefit to the Agency; and *provided further* that the aggregate amount of all such deposits and/or pledges authorized pursuant to this sentence and the last sentence of Section 4 of this resolution shall not exceed $50,000,000.

Section 4. **Approval of Forms of Series and Supplemental Indentures Related to Debt-Management Bonds.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of Debt-Management Bonds, if and to the extent appropriate, series and/or supplemental indentures (each a "Debt-Management Supplemental Indenture") under one of the Prior Indentures or a New Debt-Management Indenture and in substantially the form of the respective supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any Debt-Management Supplemental Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program; *provided* that such provisions may be therein included with respect to such Debt-Management Bonds *only* if and to the extent any such provision was made with respect to the bonds thereby refunded, and *provided further* that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Debt-Management Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the bonds thereby refunded. *Notwithstanding* the immediately preceding sentence, any Debt-Management Supplemental Indenture may provide for the deposit and/or pledge of unpledged moneys or assets of the Agency (which may include mortgage loans and/or mortgage-backed securities) to additionally secure Debt-Management Bonds if appropriate in furtherance of the objectives of the Program, in an amount not to exceed 10% of the principal amount of the bonds thereby refunded; *provided* that the Executive Director shall have determined that any such deposit and/or pledge is expected to result in a net economic benefit to the Agency; and *provided further* that the aggregate amount of all such deposits and/or pledges authorized pursuant to this sentence and the last sentence Section 3 of this resolution shall not exceed $50,000,000.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Prior Indenture or any New Debt-Management Indenture, as appropriate, in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series.

Section 5. **Approval of Forms and Terms of Debt-Management Bonds.** The Debt-Management Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Debt-Management Supplemental Indenture as finally approved shall provide. The Debt-Management Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided, however, that no Debt-Management Bond shall have a term in excess of the maturity of the bonds thereby refunded or bear interest at a stated rate in excess of fifteen percent (15%) per annum, or in the case of variable rate bonds a maximum floating interest rate of twenty-five percent (25%) per annum. Any of the Debt-Management Bonds and the Debt-Management Supplemental Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of indexed floaters, *provided* that variable-rate Debt-Management Bonds may not be issued to refund fixed-rate bonds.

Section 6. **Authorization of Financial Agreements Related to Debt-Management Bonds.** Subject to the limitation set forth in the last sentence of this Section, the Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, (ii) to result in a lower cost of borrowing when used in combination with the issuance or carrying of bonds or investments, or (iii) to enhance the relationship between risk and return with respect to the Program or any portion thereof (each of the foregoing a "Hedging Instrument"). To the extent authorized by law, including Government Code Section 5922, such agreements or other documents may include (a) interest rate swap agreements; (b) forward payment conversion agreements; (c) futures or other contracts providing for payments based on levels of, or changes in, interest rates or other indices; (d) contracts to exchange cash flows for a series of payments; (e) contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar exposure; (f) contracts to obtain guarantees, including guarantees of mortgage-backed securities or their underlying loans; or (g) letters of credit, standby bond purchase agreements, or other similar arrangements; and in each such case may be entered into in anticipation of the issuance of bonds at such times as may be determined by such officers. Such agreements and other documents are authorized to be entered into with parties selected by the Executive Director, after giving due consideration for the creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of the objectives of the Program. *Notwithstanding* anything herein to the contrary, a Hedging Instrument may be entered into only for the purposes of amending, modifying or replacing a then-existing Hedging Instrument and may in no event increase the notional amount outstanding under the Hedging Instrument so amended, modified or replaced.

ARTICLE II
AUTHORIZATION AND TERMS OF MBS BONDS

Section 7. **Determination of Need and Amount of MBS Bonds.** The Agency is of the opinion and hereby determines that the issuance of one or more series of MBS Bonds, in an aggregate amount not to exceed the sum of the following amounts, is necessary to provide sufficient funds for the Program:

(a) the aggregate amount available for the retirement of Bonds and/or other qualified mortgage bonds and deemed replaced for federal tax law purposes with proceeds of such issuance,

(b) the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency for such purpose, and

(c) if and to the extent interest on one or more of such series of Bonds is determined by the Executive Director to be intended not to be excludable from gross income for federal income tax purposes, $100,000,000.

Section 8. **Authorization and Timing of MBS Bonds.** The MBS Bonds are hereby authorized to be issued in such aggregate amount at such time or times on or before the day 60 days after the date on which is held the first meeting of the Board on or after March 1, 2014 at which a quorum is present, as the Executive Director of the Agency (the "Executive Director") deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the bonds are sold at a time on or before the day 60 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on or before October 1, 2015 upon specified terms and conditions, such Bonds may be issued on such later date.

Section 9. **Approval of Forms of Indentures Related to MBS Bonds.** The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of MBS Bonds, to execute and acknowledge and to deliver to the Trustees one or more new indentures, trust agreements or similar documents providing for the issuance of MBS Bonds (the "New MBS Indentures"), in one or more forms similar to Articles I through XII of the RMR Indenture.

Each such New MBS Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any New MBS Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to a deposit from the

Supplementary Bond Security Account created under Section 51368 of the Act) to additionally secure the MBS Bonds if appropriate in furtherance of the objectives of the Program.

Section 10. **Fixed Rate Bonds Only; No Hedging Instruments.** MBS Bonds shall be issued only as fixed rate bonds, and no Hedging Instrument shall be entered into with respect to MBS Bonds.

Section 11. **Approval of Forms of Series and Supplemental Indentures Related to MBS Bonds.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of MBS Bonds, if and to the extent appropriate, series and/or supplemental indentures (each an "MBS Supplemental Indenture"; together with the Debt-Management Supplemental Indenture, the "Supplemental Indenture") under either Articles I through XII of the RMR Indenture or a new MBS Indenture and in substantially the form of the respective supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any MBS Supplemental Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under Articles I through XII of the RMR Indenture or any New MBS Indenture, as appropriate, in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series.

Section 12. **Approval of Forms and Terms of MBS Bonds.** The MBS Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each MBS Supplemental Indenture as finally approved shall provide. The MBS Bonds shall have the maturity or maturities and shall bear interest at the fixed rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided, however, that no MBS Bond shall have a term in excess of thirty-five (35) years or bear interest at a stated rate in excess of fifteen percent (15%) per annum.

ARTICLE III
PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Section 13. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more Preliminary Official Statements relating to the Bonds and, after the sale of the Bonds, to execute and circulate one or more Official Statements relating to the Bonds, and the circulation of such Preliminary Official Statements and such Official

Statements to prospective and actual purchasers of the Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Bonds and to distribute other information and material relating to the Bonds. Circulation of Preliminary Official Statements and Official Statements and distribution of information and material as provided above in this Section may be accomplished through electronic means or by any other means approved therefor by the Executive Director, such approval to be conclusively evidenced by such circulation or distribution.

Section 14. **Authorization of Sale of Bonds.** The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales, including but not limited to private placements and public offerings. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more purchase contracts (including one or more forward purchase agreements) relating to the Bonds, by and among the Agency, the Treasurer and such underwriters or other purchasers as the Executive Director may select (the "Purchasers"), in the form or forms approved by the Executive Director upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said purchase contract by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of the Board and unless instructed otherwise by the Board, to sell each series of Bonds at the time and place and pursuant to the terms and conditions set forth in each such purchase contract as finally executed. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of a purchase contract in a special trust account for the benefit of the Agency, and the amount of said deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such purchase contract.

Section 15. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with the Prior Indenture(s), the Supplemental Indenture(s), the New Debt-Management Indenture(s) or the New MBS Indenture(s) and in one or more of the forms set forth in the Prior Indenture(s), the Supplemental Indenture(s), the New Debt-Management Indenture(s) or the New MBS Indenture(s), as appropriate.

Section 16. **Authorization of Delivery of Bonds.** The Bonds, when so executed, shall be delivered to the Trustees to be authenticated by, or caused to be authenticated by, the Trustees. The Trustees are hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by executing the certificate of authentication and registration appearing thereon, and to deliver the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver. Such instructions shall provide for the delivery of the Bonds to the Purchasers upon payment of the purchase price or prices thereof.

Section 17. **Authorization of Program Documents.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, one or more mortgage purchase and servicing agreements (including mortgage-backed security pooling agreements) and one or more loan servicing agreements with such lender or lenders or such servicer or servicers as the Executive Director may select in accordance with the purposes of the Program, and any such selection of a lender or lenders or a servicer or servicers is to be deemed approved by this Board as if it had been made by this Board. The proceeds of MBS Bonds to be issued under the authority of this Resolution shall be used to purchase MBSs guaranteed by Fannie Mae, Freddie Mac, Ginnie Mae, or other appropriate guarantor and shall not be used to purchase whole loans. The MBSs to be purchased may be underlain by loans that have terms of 30 years or less.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program, including but not limited to such agreements with Fannie Mae, Freddie Mac or other government-sponsored enterprise or similar entity for such sales in bulk or otherwise. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on either an all cash basis or may include financing by the Agency. The Executive Director and the other officers of the Agency are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, (i) contracts or agreements for the purchase or sale of mortgage-backed securities; (ii) servicing agreements, including master servicing agreements, in connection with the operation of a program of mortgage-backed securities; (iii) agreements with government-sponsored enterprises, or other secondary market issuers or guarantors of mortgage-backed securities; and (iv) such other program documents as are necessary or appropriate for the operation of a program of mortgage-backed securities.

Section 18. **Authorization of Credit Facilities.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more short-term or long-term credit facilities, including but not limited to repurchase agreements, for the purposes of (i) financing the purchase of Loans and/or mortgage-backed securities on an interim basis, prior to the financing thereof with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products; and (iii) enabling the Agency to restructure existing debt and related purposes, including, but not limited to, the redemption of existing bonds and the acquisition of bonds that have been put to liquidity providers as bank bonds. Any such credit facility may be from any appropriate source, including, but not limited to, the Pooled Money Investment Account pursuant to Government Code Section 16312; provided, however, that the aggregate outstanding principal amount of credit facilities authorized under this resolution or Resolution No. 13-03 (the multifamily financing resolution adopted at the same meeting), as amended from time to time, may not at any time exceed $200,000,000 (separate and apart from the amount of Bonds authorized by Sections 1 and 7 of this resolution).

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) (i) to make or purchase Loans and/or mortgage-backed securities to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes and (ii) to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes as authorized under Resolution No. 08-42 and any future Board resolutions thereto amendatory or supplemental.

Section 19. **Ratification of Prior Actions; Not a Repeal of Prior Resolutions.** All actions previously taken by the Agency relating to the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds (the "Prior Bonds"), the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above, including, but not limited to, such actions as the distribution of the Agency's Lender Program Manual, Mortgage Purchase and Servicing Agreement, Servicing Agreement, Developer Agreement, Servicer's Guide, Program Bulletins and applications to originate and service loans, and the sale of any foreclosed property, are hereby ratified.

This resolution is not intended to repeal in whole or in part any prior resolution of the Agency with respect to the authority granted to the Executive Director and the other officers of the Agency in relation to Prior Bonds and related agreements, including but not limited to (i) the authority to determine in furtherance of the objectives of the Program those matters required to be determined in relation to Prior Bonds, whether under indentures or other related agreements, and (ii) the authority to amend, modify or replace financial agreements of the types described in Section 6 of this resolution.

Section 20. **Authorization of Related Actions and Agreements.** The Treasurer and any duly authorized deputy thereof and the Executive Director and the officers of the Agency and any other persons authorized in writing by the Executive Director are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and Prior Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating to Bonds or Prior Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds is authorized by this resolution. Such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for the Bonds or Prior Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds or Prior Bonds to, an indexed rate mode, agreements for the investment of moneys relating to the Bonds or Prior Bonds, reimbursement agreements, letters of credit, intercreditor agreements or other arrangements relating to any credit enhancement or liquidity support or put option provided for the Bonds or Prior Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters and placement agents, private placement purchasers, bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and contracts for financial printing and similar services.

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

The Executive Director and the officers of the Agency and any other persons authorized in writing by the Executive Director are hereby authorized and directed, jointly and severally, in connection with the issuance of bonds authorized under this resolution, to use funds of the Agency to purchase MBSs, make a capital contribution with respect to such bonds, establish reserves to secure such bonds, and pay other costs of the Agency incident to, and necessary or convenient to, the issuance of such bonds.

Section 21. **Additional Delegation.** All actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Financing Risk Manager of the Agency or any other person specifically authorized in writing by the Executive Director, and except to the extent otherwise taken by another person shall be taken by the Chief Deputy Director during any period in which the office of the Executive Director is vacant.

SECRETARY'S CERTIFICATE

I, Victor James, Secretary of the Board of Directors of the California Housing Finance Agency, do hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 13-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 7th day of March, 2013, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 7th day of March, 2013.

[SEAL]

Victor James
Secretary of the Board of Directors of the
California Housing Finance Agency

SECRETARY'S CERTIFICATE

I, Victor James, Secretary of the Board of Directors of the California Housing Finance Agency, do hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 13-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 7th day of March, 2013, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original Resolution adopted at said meeting and entered in said minutes; and that said Resolution has not been amended, modified or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ___ day of ________________, 2013.

[SEAL]

____
Secretary of the Board of Directors of the
California Housing Finance Agency

State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 19, 2013

Tim Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL MULTIFAMILY BOND FINANCING AUTHORIZATION RESOLUTION 13-03

This year the multifamily bond financing resolution focuses on financing the business plan and managing outstanding multifamily debt obligations. This year Resolution 13-03 is comprised of three articles providing appropriate levels of authorization for each of the following: issuance of refunding bonds and conduit bonds for debt management purposes, issuance of new money bonds and conduit bonds for new lending under the multifamily program, and provisions applicable to all bonds issued under the resolution.

The following paragraphs summarize the authorization contained in each of the three articles.

ARTICLE I - AUTHORIZATION AND TERMS OF REFUNDING BONDS

Article I authorizes the sale and issuance of refunding bonds and conduit bonds in an amount equal to the amount of bonds being redeemed or maturing in connection with such issuance. This authority provides staff with tools to manage multifamily bonds previously issued and outstanding. This authorization specifically prohibits issuing floating rate bonds to refund fixed rate bonds except for conduit bonds.

Such refunding bonds and conduit bonds are authorized to be issued until sixty days after the first date after March 1, 2014 on which is held a Board meeting at which there is a quorum. These bonds are authorized to be issued under forms of indentures that currently have bonds outstanding or under stand-alone conduit indenture.

In any event, the resolution prohibits an increase in either the aggregate notional amount of interest rate swaps, the absolute amount of liquidity support (in the form of standby bond purchase agreements) or credit enhancement (from bond insurance, TCLP and letters of credit).

ARTICLE II – AUTHORIZATION AND TERMS OF NEW MONEY BONDS

Article II authorizes multifamily bonds to be issued in the aggregate amount not to exceed the sum of the amount of private activity bond volume cap made available for the multifamily program by the California Debt Limit Allocation Committee (CDLAC) and up to $150 million for the combined amount of 501(c)(3) bonds,

"governmental purpose" bonds, and federally-taxable multifamily bonds.
Bonds are authorized to be issued under any of the previously-approved forms of indenture that require the loans to be insured. Also, the bonds are authorized to be issued under the stand-alone conduit indenture.

Other than conduit bonds, all bonds authorized to be issued would be subject to the following conditions:

1. New money bonds would bear interest at fixed or convertible rates deemed appropriate.
2. No new money bonds shall be issued bearing a variable rate of interest.
3. The Agency shall not enter into any swaps or other hedging agreements with respect to any new money bonds.
4. All mortgage loans securing new money bonds shall carry FHA risk sharing insurance or other comparable credit enhancement.

The authorization to issue bonds for new lending under the resolution does not expire until 60 days after the first date after March 1, 2014 on which is held a Board meeting at which there is a quorum.

ARTICLE III – PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Article III authorizes staff to circulate official statements relating to refunding bonds, conduit bonds and/or new money bonds as necessary to prospective and actual bond investors. Bonds are authorized to be sold at negotiated or competitive sale as public offerings or as private placements depending on market conditions at the time of sale. The resolution also authorizes the Agency to enter into documents and agreements in connection with the Agency's multifamily lending programs. The resolution further authorizes the Agency to conduct foreclosures of mortgages owned or serviced by the Agency and to enter into contracts for the sale of foreclosed properties.

Consulting services or information services related to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, contracts for financial printing and other financial services are also authorized by Article III. In addition, the resolution reauthorizes short-term credit facilities in an aggregate amount not to exceed $200 million for operating capital, Homeownership Programs and Multifamily Programs. Finally, this authorization allows the Agency to continue to utilize our warehouse line from the State's Pooled Money Investment Board and other such facilities that may become available to the Agency.

Attachments

RESOLUTION NO. 13-03

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE FINANCING OF THE AGENCY'S MULTIFAMILY HOUSING PROGRAM, THE ISSUANCE OF MULTIFAMILY BONDS, THE AGENCY'S MULTIFAMILY BOND INDENTURES, CREDIT FACILITIES FOR MULTIFAMILY PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for the financing of mortgage loans for the acquisition, construction, rehabilitation, refinancing or development of multi-unit rental housing developments for the purpose of providing housing for persons and families of low or moderate income (the "Developments");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, or to act as a conduit bond issuer, for the purpose of financing such Developments (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the making of Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds; and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities and certain other agreements for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

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

ARTICLE I
AUTHORIZATION AND TERMS OF REFUNDING BONDS

Section 1. **Determination of Need and Amount of Refunding Bonds.** The Agency is of the opinion and hereby determines that the offer, sale and issuance of one or more series of multifamily housing revenue bonds ("Refunding Bonds") in an aggregate amount not to exceed the aggregate amount of prior multifamily bonds of the Agency to be redeemed or maturing in connection with such issuance (the related "Refunded Bonds") is necessary to provide sufficient funds for the management of the Agency's existing debt related to the Program.

<u>Section 2</u>. **<u>Authorization and Timing of Refunding Bonds.</u>** The Refunding Bonds described in Section 1 are hereby authorized to be issued for the purpose of financing, refinancing or carrying existing Loans. Refunding Bonds may be issued at such time or times on or before the day 60 days after the first date after March 1, 2014 on which is held a meeting of the Board of Directors of the Agency at which a quorum is present, as the Executive Director of the Agency (the "Executive Director") deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; *provided, however,* that if the Refunding Bonds are sold at a time on or before the day 60 days after the date on which is held such meeting, pursuant to a forward purchase agreement providing for the issuance of such Refunding Bonds on a later date on or before October 1, 2015, upon specified terms and conditions, such Refunding Bonds may be issued on such later date.

<u>Section 3</u>. **<u>Approval of Refunding Bond Indentures and Certain Other Financing Documents Related to Refunding Bonds.</u>** (a) Refunding Bonds may be issued under and pursuant to any one or more of the following (collectively, the "Refunding Bond Prior Indentures"):

(1) the Multifamily Housing Revenue Bond II Indenture, dated as of October 1, 1995;

(2) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1, 1997;

(3) the Multifamily Loan Purchase Bond Indenture, dated as of July 1, 2000;

(4) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009; or

(5) a stand-alone conduit indenture or comparable document authorized pursuant to Section 10.

(b) The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of Refunding Bonds, either a stand-alone conduit indenture (which may include a supplemental indenture) specified in subsection (a)(5) of this Section 3 (a "Refunding Bond Conduit Indenture") or a supplemental indenture (a "Refunding Bond Supplemental Indenture" and, collectively with the Refunding Bond Conduit Indentures, "Refunding Bond Indentures") under a Refunding Bond Prior Indenture specified in subsections (a)(1) through (a)(4) of this Section 3 in substantially the form of any supplemental indenture or series indenture executed or approved in connection with any of the Refunding Bond Prior Indentures, in each case with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Refunding Bond Indenture in connection with the issuance of each such series of Refunding Bonds.

(c) For each series of Refunding Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, a reimbursement agreement, letter of credit agreement, standby bond purchase agreement, or other arrangement with respect to credit enhancement or liquidity support, and any intercreditor agreement related thereto, in substantially the forms of the reimbursement agreements, letter of credit agreements, standby bond purchase agreements, other such arrangements and intercreditor agreements contemplated under the Refunding Bond Indentures or used in connection with the Refunded Bonds.

(d) Any Refunding Bond Indenture, reimbursement agreement, letter of credit agreement, standby bond purchase agreement, other such arrangement or intercreditor agreement executed in connection with the issuance of Refunding Bonds may include such modifications as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, including, but not limited to, one or more of the following provisions:

(1) for the Agency's general obligation to pay any debt secured thereby, or

(2) for risk sharing provisions dividing between the Agency and any credit provider, mortgage lender, commercial bank or other financial institution and/or FHA, in such manner as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, the credit and financing risks relating to Refunding Bonds and the Developments financed by such Refunding Bonds;

provided, however, that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Refunding Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the related Refunded Bonds.

Section 4. **Approval of Forms and Terms of Refunding Bonds.** Refunding Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Refunding Bond Indenture as finally approved shall provide. Refunding Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; *provided, however,* that no Refunding Bond other than a Conduit Bond (as defined in Section 10, as to which the terms of such Section 10 shall apply) shall bear interest at a stated rate in excess of fifteen percent (15%) per annum or have a final maturity later than forty-five years from the earlier of the date of issuance of the Refunded Bonds or, if the Refunded Bonds were refunding bonds, the original bonds in the series of refunding.

Refunding Bonds and the related Refunding Bond Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Refunding Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of indexed floaters.

No Variable Rate Refunding of Fixed Rate Bonds. Other than Conduit Bonds, as to which the terms of Section 10 shall apply, variable rate Refunding Bonds may not be issued to refund fixed rate bonds.

Section 5. **Authorization of Other Financial Agreements Related to Refunding Bonds.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed to amend, modify or replace existing agreements and documents that related to Refunded Bonds in order to (i) reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk with respect to Refunding Bonds or related investments, (ii) result in a lower cost of borrowing when used in combination with the issuance or carrying of Refunding Bonds or related investments, or (iii) enhance the relationship between risk and return with respect to the existing debt of the Program or any portion thereof; *provided, however,* that the aggregate notional amount of such agreements related to the Program may not be increased. Such agreements and other documents are authorized to be entered into with parties selected by the Executive Director, after giving due consideration for the creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of the objectives of the management of the debt of the Program.

ARTICLE II
AUTHORIZATION AND TERMS OF NEW MONEY BONDS

Section 6. **Determination of Need and Amount of New Money Bonds.** The Agency is of the opinion and hereby determines that the offer, sale and issuance of one or more series of multifamily housing revenue bonds ("New Money Bonds") in an aggregate amount not to exceed the sum of the following amounts is necessary to provide sufficient funds for new lending under the Program:

(a) the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency for such purpose; and

(b) if and to the extent the Bonds are "qualified 501(c)(3) bonds" under federal tax law, are not "private activity bonds" under federal tax law, or are determined by the Executive Director to be intended not to be tax-exempt for federal income tax purposes, $150,000,000.

Section 7. **Authorization and Timing.** The New Money Bonds described in Section 6 are hereby authorized to be issued for the purpose of financing or carrying new Loans for the acquisition, construction, rehabilitation, refinancing or development of Developments. New Money Bonds may be issued at such time or times on or before the day 60 days after the first date after March 1, 2014 on which is held a meeting of the Board of Directors of the Agency at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer as to the timing of each such issuance; *provided, however,* that if the New Money Bonds are sold at a time on or before the day 60 days after the date on which is held such meeting, pursuant to a forward purchase agreement providing for the issuance of such New Money Bonds on a later date on or before October 1, 2015, upon specified terms and conditions, such New Money Bonds may be issued on such later date.

Section 8. **Approval of New Money Bond Indentures and Certain Other Financing Documents.** (a) New Money Bonds may be issued under and pursuant to any one or more of the following (collectively, the “New Money Bond Prior Indentures”):

(1) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009; or

(2) a stand-alone conduit indenture or comparable document authorized pursuant to Section 10.

(b) The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of New Money Bonds, either a stand-alone conduit indenture (which may include a supplemental indenture) specified in subsection (a)(2) of this Section 8 (a “New Money Bond Conduit Indenture” and, collectively with the Refunding Bond Conduit Indentures, “Conduit Indentures”) or a supplemental indenture (a “New Money Bond Supplemental Indenture,” and, collectively with the New Money Bond Conduit Indentures, “New Money Bond Indentures”) under the New Money Bond Prior Indentures specified in subsection (a)(1) of this Section 8 in substantially the form of any supplemental indenture or series indenture executed or approved in connection with such New Money Bond Prior Indentures, in each case with such changes therein as the officers executing the same approve upon consultation with the Agency’s legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable New Money Bond Indenture in connection with the issuance of each such series of New Money Bonds.

Section 9. **Approval of Forms and Terms of New Money Bonds.** New Money Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without

California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each New Money Bond Indenture as finally approved shall provide. New Money Bonds shall have the maturity or maturities and shall bear interest at fixed or convertible rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program.

New Money Bonds and the related New Money Bond Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such New Money Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, and/or to accommodate the requirements of any provider of bond insurance or other credit enhancement.

No Variable Rate Bonds or Hedges; Insurance or Credit Enhancement Required. Other than a Conduit Bond, as to which the terms of Section 10 shall apply, (a) no New Money Bond shall be issued bearing a variable rate of interest or have a term in excess of fifty years or bear interest at a stated rate in excess of fifteen percent (15%) per annum; (b) the Agency shall not enter into any swaps or other hedging agreements with respect to any New Money Bonds; and (c) all mortgage loans securing New Money Bonds shall carry FHA risk sharing insurance or other mortgage insurance or comparable credit enhancement.

<u>Section 10</u>. **<u>Conduit Issuances.</u>** The following provisions shall apply to limited obligation Bonds (as described herein, "Conduit Bonds") issued on behalf of Development sponsors for which, by the terms of the documents providing for the issuance of such Bonds, (a) the Agency is not liable for payment of the principal of, premium or interest on such Bonds, except from revenues received from loans made with the proceeds of such Bonds ("Conduit Loans"), (b) the Agency has not contributed or pledged any funds or assets to such Bonds other than revenues derived from or related to such Conduit Loans, and (c) there is otherwise no obligation of or material financial risk to the General Fund of the Agency under the terms of such Bonds:

(1) Conduit Bonds may be issued under and pursuant to any Indenture or comparable document meeting the requirements for Conduit Bonds described in the first paragraph of this Section 10, including but not limited to the following:

(a) the form of Fannie Mae stand-alone conduit Indenture approved by Resolution No. 09-02;

(b) the form of Freddie Mac stand-alone conduit Indenture approved by Resolution No. 09-02;

(c) the form of stand-alone conduit Master Pledge and Assignment approved by Resolution No. 09-02;

(d) the form of FHA/GNMA stand-alone conduit Indenture approved by Resolution No. 10-08;

(2) Conduit Bonds may be issued as drawdown bonds for which the bond purchaser purchases Bonds in installments as funds are needed by the Development sponsor;

for purposes of Sections 2 and 7, the date of the initial draw for any issue of drawdown Conduit Bonds shall be considered the issue date of such issue;

(3) Conduit Bonds may be issued with variable rates of interest and have such maturity dates and other terms as set forth in the applicable Conduit Indenture; and

(4) Conduit Bonds may otherwise have such commercially reasonable terms as may be approved by the Executive Director, such approval to be evidenced by the execution and delivery of the documents relating to such Conduit Bonds in accordance with this Resolution.

(5) For each series of Conduit Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, any and all necessary documents, including but not limited to reimbursement agreements, letter of credit agreements or other arrangements with respect to liquidity or credit enhancement, and any intercreditor or subordination agreements related thereto.

ARTICLE III
PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Section 11. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more preliminary official statements relating to Refunding Bonds and/or New Money Bonds (collectively, "Bonds") and to execute and circulate one or more official statements relating to Bonds, and the circulation of such preliminary official statement and such official statement to prospective and actual purchasers of Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning Bonds and to distribute other information and material relating to Bonds, including by posting of such information on one or more websites maintained by or at the direction of the Agency.

Section 12. **Authorization of Sale of Bonds.** Bonds are hereby authorized to be sold at negotiated or competitive sale or sales, including but not limited to private placements and public offerings. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more agreements, by and among the Agency, the Treasurer, if applicable, and such purchasers or underwriters as the Executive Director may select (the "Purchasers"), relating to the sale of the Bonds, in such form as the Executive Director may approve upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said agreements by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of this Board and unless instructed otherwise by this Board, to sell the Bonds pursuant to the terms and conditions set forth in each such agreement as finally executed on behalf of the Agency. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of such agreement in a special trust account for the benefit of the Agency, and the amount of such deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such agreement.

Section 13. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized and directed to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with each Refunding Bond Indenture or New Money Bond Indenture in one or more of the forms set forth in such indenture.

Section 14. **Authorization of Delivery of Bonds.** The Bonds when so executed shall be delivered to the trustee or other authenticating agent ("Trustee") to be authenticated or caused to be duly and properly authenticated. The Trustee is hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by the execution of the certificate of authentication and registration appearing thereon, and to deliver or cause to be delivered the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver to the Trustee.

Section 15. **Authorization of Program Documents.** The Executive Director and the other officers of the Agency are hereby authorized and directed to execute all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, regulatory agreements, loan agreements, origination and servicing agreements (or other loan-to-lender documents), servicing agreements, developer agreements, financing agreements, investment agreements, intercreditor agreements, subordination agreements, agreements to enter into escrow and forward purchase agreements, escrow and forward purchase agreements, refunding agreements and continuing disclosure agreements, in each case with such other parties as the Executive Director may select in furtherance of the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on an all cash basis or may include financing by the Agency. The Executive Director and the other officers of the Agency are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts, necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

Section 16. **Authorization of Credit Facilities.** In addition, the Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more short-term or long-term credit facilities, including but not limited to repurchase agreements, for the purposes of (i) financing the purchase of Loans on an interim basis, prior to the financing of such Loans with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products; and (iii) enabling the Agency to restructure existing debt and related purposes, including, but not limited to, the redemption of existing bonds and the acquisition of bonds that have been put to liquidity providers as bank bonds. Any credit facility entered into pursuant to this Section 16 may be from any appropriate source, including, but not limited to, the Pooled Money Investment Account pursuant to Government Code Section 16312; *provided, however,* that the aggregate outstanding principal amount of credit facilities authorized under this Section 16 or the comparable sections of Resolution No. 13-01 (the single family financing resolution adopted at the same meeting) may not at any time exceed $200,000,000 (separate and apart from the amount of bonds authorized by Sections 1 and 6 of this resolution and such other resolutions).

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) (i) to make or purchase loans to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes and (ii) to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes as authorized under Resolution No. 08-42 and any future Board resolutions thereto amendatory or supplemental.

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes. Any Agency bonds so purchased shall remain outstanding for all purposes except to the extent that the Executive Director or the other officers of the Agency expressly provide for the retirement or redemption, and cancellation, of such bonds. Any Agency bonds so purchased may be purchased and resold, in each case on such terms as may be determined by the Executive Director and the other officers of the Agency in the best interests of the Agency. The Agency may establish any account or accounts as may be necessary or desirable in connection with the purchase of such bonds.

Section 17. **Ratification of Prior Actions; Not a Repeal of Prior Resolutions.** (a) All actions previously taken by the officers of the Agency in connection with the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds (the "Prior Bonds"), the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above are hereby approved and ratified.

(b) This resolution is not intended to repeal in whole or in part any prior resolution of the Agency with respect to the authority granted to the Executive Director and the other officers of the Agency in relation to Prior Bonds and related agreements, including but not limited to (i) the authority to determine in furtherance of the objectives of the Program those matters required to be determined in relation to Prior Bonds, whether under indentures or other related agreements, and (ii) the authority to amend, modify or replace financial agreements of the types described in Section 5 of this Resolution.

Section 18. **Authorization of Related Actions and Agreements.** The Treasurer and any duly authorized deputy thereof and the Executive Director and the officers of the Agency and any other persons authorized in writing by the Executive Director, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and Prior Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating to Bonds or Prior Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds authorized by this resolution. Subject in all cases to the express limitations set forth above in this resolution, such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for Bonds or Prior Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds or Prior Bonds to, an auction rate mode or an indexed rate mode, agreements for the investment of moneys relating to the Bonds or Prior Bonds, reimbursement agreements, letter of credit agreements, intercreditor agreements or other arrangements relating to any credit enhancement or liquidity support or put option provided for the Bonds or the Prior Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters, remarketing agents, placement agents, private placement purchasers, bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and contracts for financial printing and similar services. The Executive Director and the officers of the Agency, and any other persons authorized in writing by the Executive Director, are hereby authorized and directed, jointly and severally, to provide as necessary for payment of costs of issuance related to Bonds and to provide for the Agency to contribute capital as necessary to facilitate the issuance of Bonds.

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

Section 19. **Additional Delegation.** All actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Financing Risk Manager of the Agency, the Director of Multifamily Programs of the Agency (but only with respect to Conduit Bonds issued in accordance with Section 10 hereof), or any other person specifically authorized in writing by the Executive Director, and except to the extent otherwise taken by another person shall be taken by the Chief Deputy Director during any period in which the office of the Executive Director is vacant.

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SECRETARY'S CERTIFICATE

I, Victor James, the undersigned, do hereby certify that I am the duly authorized Secretary of the Board of Directors of the California Housing Finance Agency, and hereby further certify that the foregoing is a full, true, and correct copy of Resolution No. 13-03 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 7th day of March 2013, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 7th day of March 2013.

[SEAL]

VICTOR JAMES
Secretary of the Board of Directors of the
California Housing Finance Agency

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SECRETARY'S CERTIFICATE

I, Victor James, the undersigned, do hereby certify that I am the duly authorized Secretary of the Board of Directors of the California Housing Finance Agency, and hereby further certify that the foregoing is a full, true, and correct copy of the Resolution No. 13-03 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 7th day of March 2013, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ____ day of _________________, 2013.

[SEAL]

____
VICTOR JAMES
Secretary of the Board of Directors of the
California Housing Finance Agency

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 21, 2013

Timothy Hsu, Financing Risk Manager

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: AUTHORIZATION TO MAKE APPLICATION TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
RESOLUTION 13-04

The California Debt Limit Allocation Committee ("CDLAC") is the State entity which, under California law, allocates the federal volume cap for "private activity bonds" to be issued each year by State and local bond issuers. Private activity bonds are federally tax-exempt bonds which are issued to benefit non-governmental borrowers such as first-time homebuyers or owners of affordable rental housing developments.

Resolution 13-04 would authorize application to CDLAC for a maximum of $200 million of single family allocation and $400 million of multifamily allocation. Such authorization would be in effect during the period of time in which Resolutions 13-02 and 13-03, which authorize the issuance of bonds for the Homeownership Program and Multifamily Program, are themselves in effect.

The amounts proposed in Resolution 13-04 are greater than the amount management would expect to apply for. However, the presumption is that the Board would want CalHFA to be authorized to apply and eligible to do so under CDLAC rules if allocation is available.

Attachment

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RESOLUTION NO. 13-04

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY APPROVING APPLICATIONS TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE FOR PRIVATE ACTIVITY BOND ALLOCATIONS FOR THE AGENCY'S HOMEOWNERSHIP AND MULTIFAMILY PROGRAMS

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance to persons and families of low or moderate income to enable them to purchase moderately priced single family residences (the "Residences");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to provide such financial assistance by means of ongoing programs (collectively, the "Homeownership Program") to make lower-than-market rate loans, and to issue Mortgage Credit Certificates for the permanent financing of Residences;

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Homeownership Program, and to issue Mortgage Credit Certificates for the permanent financing of Residences;

WHEREAS, the Agency has by its Resolution No.13-02 authorized the issuance of bonds for the Homeownership Program and desires to authorize application to the California Debt Limit Allocation Committee for private activity bond allocations to be used in connection with the issuance of all or a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes;

WHEREAS, the Agency has also determined that there exists a need in California for the financing of mortgage loans for the acquisition, construction, rehabilitation, refinancing or development of multifamily rental housing developments (the "Developments") for the purpose of providing housing for persons and families of low or moderate income;

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Multifamily Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments;

WHEREAS, pursuant to the Act, the Agency has the authority to issue bonds to provide sufficient funds to finance the Multifamily Program; and

WHEREAS, the Agency has by its Resolution No. 13-03 authorized the issuance of bonds for the Multifamily Program and desires to authorize application to the California Debt Limit Allocation Committee for private activity bond allocations to be used in connection with the issuance of all or a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes, or for the issuance of Mortgage Credit Certificates;

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

Section 1. **Authorization to Apply to CDLAC for the Homeownership Program.** The officers of the Agency are hereby authorized to apply from time to time to the California Debt Limit Allocation Committee ("CDLAC") for private activity bond allocations in an aggregate amount of up to $200,000,000 per year to be used in connection with bonds issued under Resolution No. 13-02, or resolutions heretofore or hereafter adopted by the Agency for the Homeownership Program. In the alternative, subject to the approval of CDLAC and under such terms and conditions as may be established by CDLAC, any such allocation received is authorized by this Board to be used in connection with a mortgage credit certificate program.

Section 2. **Authorization to Apply to CDLAC for the Multifamily Program.** The officers of the Agency are hereby authorized to apply from time to time to CDLAC for private activity bond allocations in an aggregate amount of up to $400,000,000 per year, to be used in connection with bonds issued under Resolution No. 13-03 or other resolutions heretofore or hereafter adopted by the Agency for the Multifamily Program.

Section 3. **Authorization of Related Actions and Agreements.** The officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they may deem necessary or advisable in order to effectuate the purposes of this resolution, including but not limited to satisfying in the best interests of the Agency such conditions as CDLAC may establish for private activity bond allocation applications. Such officers and deputies are also hereby expressly authorized to accept on behalf and in the best interests of the Agency any private activity bond allocations offered by CDLAC, including but not limited to carryforward allocations, over and above those which may be granted pursuant to any application authorized hereinabove or in any prior resolution of the Board.

SECRETARY'S CERTIFICATE

I, Victor James, the undersigned, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 13-04 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 7th day of March, 2013, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 7th day of March, 2013.

[SEAL]

Victor J. James
Secretary of the Board of Directors of the
California Housing Finance Agency

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** March 7, 2013

Tim Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL INVESTMENT REPORT

In 2012 the Board adopted an investment policy and asked for a periodic investment report. Attached for your information is an investment report as of June 30, 2012, the end date for the most recent fiscal year. This report shows that CalHFA moneys continue to be invested in accordance with the Board-approved investment policy.

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INVESTMENT REPORT
JUNE 30, 2012

SUMMARY

As of June 30, 2012, CalHFA had $8.8 billion of assets, $7.3 billion of liabilities, and $1.5 billion of fund equity. Out of the $8.8 billion of assets, $2.8 billion (32%) consisted of cash equivalents and investments (together "investments").

When comparing the investment balance as of June 30, 2012 to the investment balance as of June 30, 2011, there is a $542 million decrease. The primary reasons for the decrease are attributable to the conversion, refunding and redemption of New Issue Bond Program ("NIBP") Escrow proceeds, previously invested in the Money Market Fund ("MMF"), and the use of investment funds to redeem bonds.

The portfolio, excluding the NIBP escrow proceeds (which are invested in a MMF), is still heavily concentrated in the State Investment Pool (60% of the total), which means the investment earnings are likely to remain very low. The State Investment Pool's year-to-date yield at June 30, 2012 was 0.358.

The persistence of lower interest rates is the principal risk of the investments portfolio. Looking at the entire balance sheet, however, the interest rate risk on the investments is partially offset by the Agency's unhedged variable rate bonds, which benefit from lower interest rates.

Amount Invested
($ in millions)

Investment Type	Bond Indenture	CalHFA G-O	Admin	NIBP	Total
Investment agreements	$ 211.9	$ 0	$ 0	$ 0	$ 211.9
State investment pool	505.7	161.2	643.7	1.5	1,312.1
Securities (Fair market value)	244.9	39.8	0.0	292.8	577.5
Repurchase Agreement	1.3	13.0	0.1	113.7	128.1
Money market and Bank Deposit	6.6	2.1	7.6	516.6	532.9
Totals	$ 970.4	$ 216.1	$ 651.4	$ 924.6	$ 2,762.5

Investment Agreements

As stated in the Investment Policy, we have always strived to invest bond moneys in investment agreements. Such agreements give us a high level of security of principal, a fixed rate of return to match the fixed cost of our debt, and complete liquidity so that we can use them like interest-bearing checking accounts and make deposits and withdrawals on short notice. Balances invested in investment agreements decreased to $211.9 million ($237.3 million as of June 30, 2011). This decrease is primarily due to the withdrawal of principal that was used to make debt service payments and to redeem bonds during the fiscal year.

It is worth noting that the universe of investment agreement providers has diminished greatly due to credit rating downgrades and lower interest rates. The Agency will monitor this marketplace and attempt to acquire more eligible investment agreements as the opportunities arise.

Investment Agreement Balances
($ in millions)

	Bond Proceeds (For Loan Purchases)	Reserve Funds	Debt Service Funds	Totals
Single Family	$0	$44.8	$112.1	$156.9
Multifamily	0	0.0	55.0	55.0
Totals	$0	$44.8	$167.1	$211.9

The first two attachments show information about our $211.9 million of deposits with financial institutions providing us with investment agreements. If the financial institution's credit ratings were to fall below a certain threshold level, we have the right to request collateralization or the return of our deposits. In recent years, the Agency has liquidated its position in investment agreements provided by DEPFA bank, AIG, MBIA, Aegon and certain Westdeutsche LB investment agreements. The liquidated proceeds were invested in the State Investment Pool. In August of 2012 Moody's withdrew their rating for Westdeutsche LB (S&P had previously withdrawn their rating) the investment agreement has been liquidated and the proceeds were deposited in SMIF.

State Investment Pool (Surplus Money investment fund "SMIF")

As shown in the table on page 2, we have $1.3 billion invested in the State Investment Pool, also referred to as Surplus Money Investment Fund ("SMIF"), which, over time, has given us security, a relatively competitive return (relative to similar investment vehicles such as Money Market Funds), complete liquidity, and administrative simplicity.

As stated in the Investment Policy, we invest most of the non-bond indenture moneys (funds invested under our Housing Assistance Trust, Contract Administration Programs, money received from HUD for the Section 8 projects, servicing impound account moneys, funds set aside for warehousing of loans, funds held in the Agency's operating account and general reserves of the Agency), in the SMIF. In recent years the Agency has been investing an increasing amount of bond moneys in the State Investment Pool.

The State's treasury operations are managed in compliance with the California government code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The Pooled Money Investment Account (PMIA) operates with the oversight of the Pooled Money Investment Board (consisting of the State Treasurer, the State Controller and Director of Finance).

SECURITIES

The third attachment provides additional information about the $577.5 million (fair market value) of securities held by the Agency, which are largely Fannie Mae and Ginnie Mae securities backed by loans originated for our single family and multifamily programs.

REPURCHASE AGREEMENTS

In December 2010, the Agency entered into a U.S. Bank National Association Open Repurchase agreement with U.S. Bank through its Money Center for most of the programs except Home Mortgage Revenue Bonds. Although the repurchase agreements are not insured by Federal Deposit Insurance Corporation (FDIC) or guaranteed by any governmental agency or authority, or by U.S. Bank, the securities purchased are U.S. government or other government agency securities at a specified price and U.S. Bank has the obligation to repurchase those securities back at a higher price after a specified period, or at the demand of the Agency.

MONEY MARKET AND BANK DEPOSITS

Our bond trustee sweeps overnight deposits into a U.S. Treasury money market fund. The amount invested in the money market fund primarily consists of funds held in escrow for the NIBP. It is worth noting that the Agency had limited discretion over the investment of the NIBP Escrow. The investment options were stipulated by the U.S. Treasury, the sponsor of NIBP, and the investment earnings from the NIBP Escrow are "passed-thru" as interest payments on the NIBP bonds.

Attachments (3)

Attachment #1

SUMMARY OF CALIFORNIA HOUSING FINANCE AGENCY FUNDS DEPOSITED IN INVESTMENT AGREEMENTS - June 30, 2012

INVESTMENT AGREEMENT PROVIDER	COUNTRY	MOODY'S RATING	STANDARD & POOR'S RATING	AMOUNT INVESTED
Societe Generale	France	A2	A	$ 101,950,238
Transamerica Life Insurance Company	US	A1	AA-	53,010,831
*Bayerische Landesbank	Germany	Aaa	NR	12,715,809
Rabobank Int.	Netherland	Aa2	AA	12,399,446
Trinity Funding Company, LLC	US	A1	AA+	8,844,535
*NATIXIS (French Government Guarantee)	France	Aaa	AA+	115,483
NATIXIS (underlying)	France	A2	A	8,258,194
*Westdeutsche LB	Germany	A3	NR	14,558,212
Total funds Invested in Investment Agreements				$ 211,852,748

*Institution's ratings based on state guarantee

Attachment #2

California Housing Finance Agency
Funds Invested in Investment Agreements
as of June 30, 2012
Totals by Financial Institution Ratings

Moody's Ratings	Amount Invested	Percentage of Total Invested
Aaa	$ 12,831,292	6.06%
Aa2	12,399,446	5.85%
A1	61,855,366	29.20%
A2	110,208,432	52.03%
A3	14,558,212	6.87%
Total	$ 211,852,748	100.01%
S & P Ratings		
AAA	$ -	0.00%
AA+	8,960,018	4.23%
AA	12,399,446	5.85%
AA-	53,010,831	25.02%
A	110,208,432	52.02%
NR	27,274,021	12.87%
Total	$ 211,852,748	100.00%

Attachment #3

Summary of CalHFA Investments in Securities

As of June 30, 2012

Type of Investment	Par Value	Book Value	Market Value	Weighted Average Coupon	Weighted Average Remaining Maturity
GNMA Securities	$ 388,842,203	$ 388,842,203	$ 423,057,981	3.67%	24.88 Years
FNMA Securities	144,186,100	144,186,100	154,446,251	4.70%	26.62 Years
Totals	$ 533,028,303	$ 533,028,303	$ 577,504,232		

State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 19, 2013

From: Tim Hsu, Director of Financing
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Homeownership Loan Portfolio Update

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

- Delinquencies as of December 31, 2012 by insurance type,
- Delinquencies as of December 31, 2012 by product (loan) type,
- Delinquencies as of December 31, 2012 by loan servicer,
- Delinquencies as of December 31, 2012 by county,
- A chart of the number of CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of August 2010 thru December 2012)
- A chart of the number of CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of August 2010 thru December 2012)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of December 2007 through December 2012),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of December 2010 through December 2012,
- Real Estate Owned (REO) at January 31, 2013,
- Accumulated Uninsured Losses from January 1, 2008 through January 31, 2013,
- Disposition of 1st Trust Deed Gain/(Loss) for January 1 through January 31, 2013, and
- Write-Offs of subordinate loans for January 1 through January 31, 2013

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Cal HFA California Housing Finance Agency

HOMEOWNERSHIP LOAN PORTFOLIO
DELINQUENCY, REO, SHORT SALE and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of December 31, 2012

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count: Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals: Count	%
Federal Guaranty											
FHA	8,641	$ 1,001,952,484	29.38%	503	5.82%	185	2.14%	609	7.05%	1,297	15.01%
VA	231	28,425,757	0.83%	6	2.60%	2	0.87%	21	9.09%	29	12.55%
RHS	82	14,822,094	0.43%	3	3.66%	0	0.00%	12	14.63%	15	18.29%
Conventional loans											
with MI											
CalHFA MI Fund	5,214	1,331,948,515	39.05%	208	3.99%	97	1.86%	594	11.39%	899	17.24%
without MI											
Orig with no MI	4,572	873,617,783	25.61%	118	2.58%	64	1.40%	291	6.36%	473	10.35%
MI Cancelled*	1,184	160,127,094	4.69%	31	2.62%	10	0.84%	45	3.80%	86	7.26%
Total CalHFA	19,924	$ 3,410,893,727	100.00%	869	4.36%	358	1.80%	1,572	7.89%	2,799	14.05%

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

Note: In accordance with CalHFA's policy, *no trustee sale is permitted between December 15 and January 5 of any year without CalHFA's prior written approval.*

Reconciled Loan Delinquency Summary
All Active Loans By Loan Type
As of December 31, 2012

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count: Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals: Count	%
30-yr level amort											
FHA	8,641	$ 1,001,952,484	29.38%	503	5.82%	185	2.14%	609	7.05%	1,297	15.01%
VA	231	28,425,757	0.83%	6	2.60%	2	0.87%	21	9.09%	29	12.55%
RHS	82	14,822,094	0.43%	3	3.66%	0	0.00%	12	14.63%	15	18.29%
Conventional - with MI	2,924	665,848,243	19.52%	101	3.45%	42	1.44%	264	9.03%	407	13.92%
Conventional - w/o MI	5,066	872,823,317	25.59%	132	2.61%	56	1.11%	254	5.01%	442	8.72%
40-yr level amort											
Conventional - with MI	412	116,835,473	3.43%	20	4.85%	7	1.70%	56	13.59%	83	20.15%
Conventional - w/o MI	188	37,060,804	1.09%	5	2.66%	1	0.53%	17	9.04%	23	12.23%
5-yr IOP, 30-yr amort											
Conventional - with MI	1,878	549,264,799	16.10%	87	4.63%	48	2.56%	274	14.59%	409	21.78%
Conventional - w/o MI	502	123,860,755	3.63%	12	2.39%	17	3.39%	65	12.95%	94	18.73%
Total CalHFA	19,924	$ 3,410,893,727	100.00%	869	4.36%	358	1.80%	1,572	7.89%	2,799	14.05%
	Weighted average of conventional loans:			357	3.25%	171	1.56%	930	8.48%	1,458	13.29%

Reconciled Loan Delinquency Summary
All Active Loans By Servicer
As of December 31, 2012

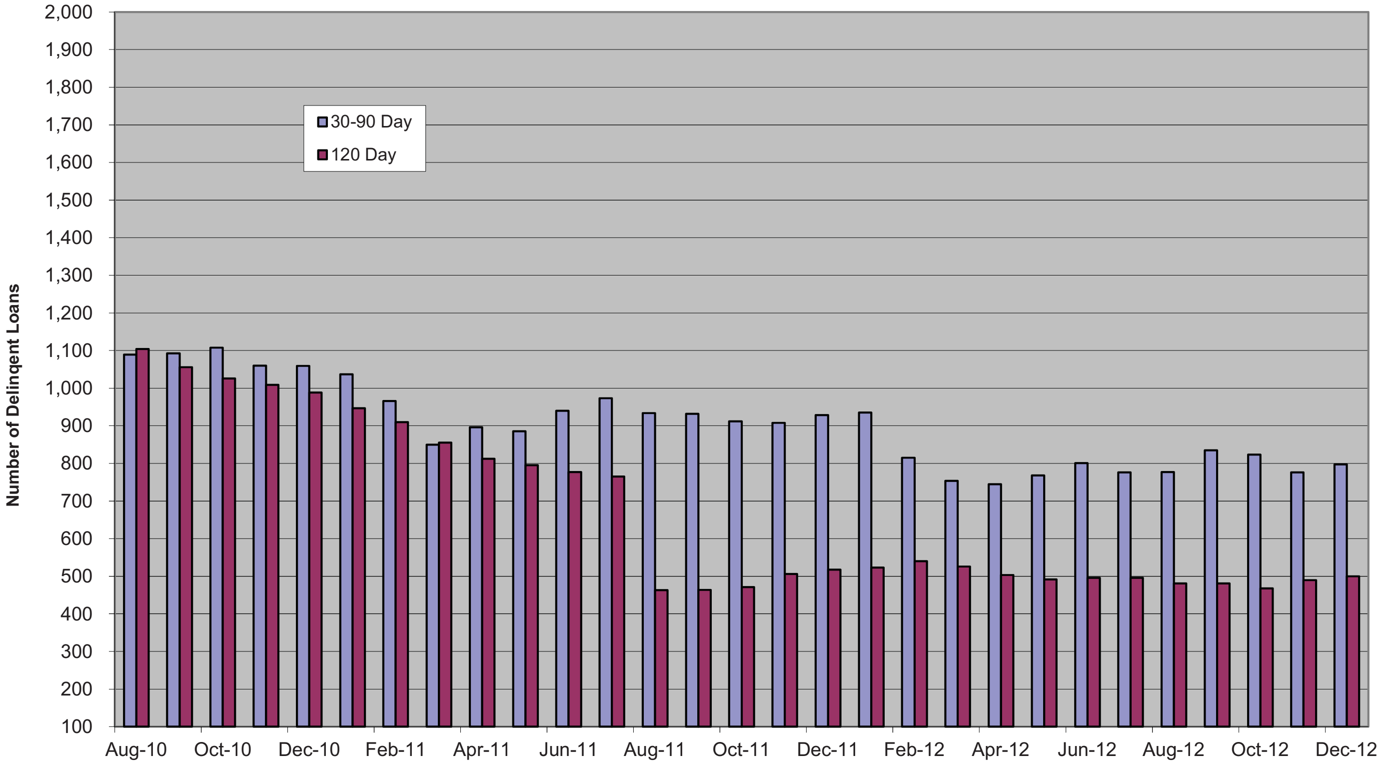
	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	%
CALHFA - LOAN SERVICING	7,428	$ 1,597,022,220	46.82%	244	3.28%	99	1.33%	565	7.61%	908	12.22%
GUILD MORTGAGE	4,613	745,181,178	21.85%	226	4.90%	95	2.06%	265	5.74%	586	12.70%
WELLS FARGO HOME MORTGAGE	2,089	228,623,459	6.70%	84	4.02%	34	1.63%	146	6.99%	264	12.64%
BAC HOME LOANS SERVICING, LP	1,850	338,305,574	9.92%	83	4.49%	56	3.03%	339	18.32%	478	25.84%
EVERHOME MORTGAGE COMPANY	1,870	166,942,202	4.89%	143	7.65%	24	1.28%	78	4.17%	245	13.10%
FIRST MORTGAGE CORP	762	143,304,482	4.20%	32	4.20%	21	2.76%	59	7.74%	112	14.70%
GMAC MORTGAGE CORP	815	103,019,720	3.02%	42	5.15%	18	2.21%	52	6.38%	112	13.74%
BANK OF AMERICA, NA	252	40,277,458	1.18%	8	3.17%	6	2.38%	32	12.70%	46	18.25%
JPMORGAN CHASE BANK, N.A.	160	36,855,288	1.08%	3	1.88%	4	2.50%	30	18.75%	37	23.13%
CITIMORTGAGE, INC.	42	9,369,836	0.27%	3	7.14%	1	2.38%	5	11.90%	9	21.43%
DOVENMUEHLE MORTGAGE, INC.	40	1,106,057	0.03%	1	2.50%	0	0.00%	0	0.00%	1	2.50%
WESCOM CREDIT UNION	3	886,253	0.03%	0	0.00%	0	0.00%	1	33.33%	1	33.33%
Total CalHFA	19,924	$ 3,410,893,727	100.00%	869	4.36%	358	1.80%	1,572	7.89%	2,799	14.05%

Reconciled Loan Delinquency Summary
All Active Loans By County
As of December 31, 2012

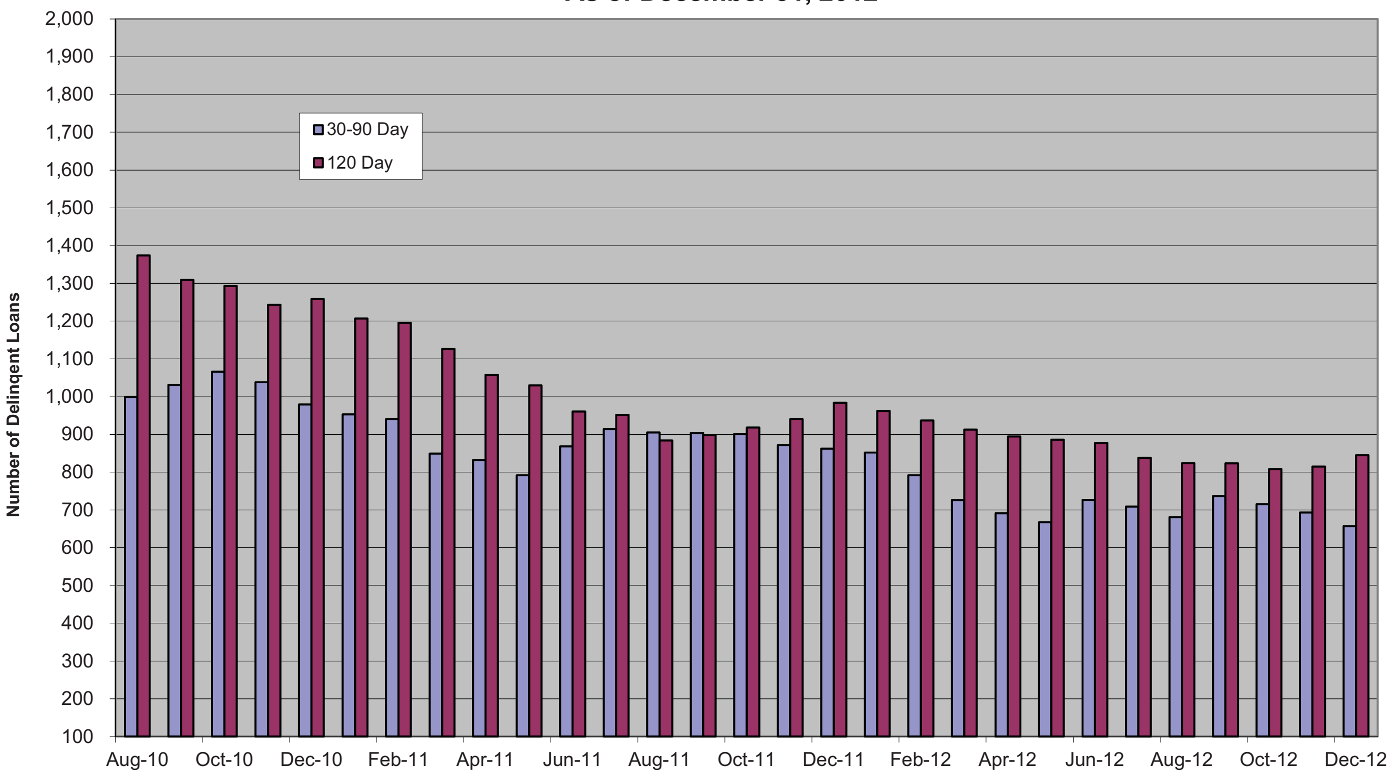
	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count Loan Count	30-Day	Loan Count	60-Day	Loan Count	90-Day+	Total Count	%
LOS ANGELES	3,307	$ 662,141,498	19.41%	141	4.26%	57	1.72%	288	8.71%	486	14.70%
SAN DIEGO	1,751	361,409,834	10.60%	40	2.28%	35	2.00%	191	10.91%	266	15.19%
SANTA CLARA	1,377	347,325,552	10.18%	23	1.67%	12	0.87%	71	5.16%	106	7.70%
KERN	1,247	124,510,203	3.65%	79	6.34%	37	2.97%	69	5.53%	185	14.84%
FRESNO	1,029	87,731,642	2.57%	76	7.39%	14	1.36%	56	5.44%	146	14.19%
TULARE	1,017	87,380,302	2.56%	66	6.49%	24	2.36%	66	6.49%	156	15.34%
ORANGE	972	210,630,679	6.18%	26	2.67%	14	1.44%	78	8.02%	118	12.14%
SACRAMENTO	940	155,933,389	4.57%	42	4.47%	11	1.17%	94	10.00%	147	15.64%
SAN BERNARDINO	933	147,496,122	4.32%	60	6.43%	23	2.47%	109	11.68%	192	20.58%
RIVERSIDE	898	134,531,479	3.94%	53	5.90%	34	3.79%	96	10.69%	183	20.38%
ALAMEDA	882	203,804,153	5.98%	18	2.04%	10	1.13%	57	6.46%	85	9.64%
CONTRA COSTA	692	145,697,097	4.27%	31	4.48%	7	1.01%	68	9.83%	106	15.32%
VENTURA	496	126,199,182	3.70%	25	5.04%	10	2.02%	34	6.85%	69	13.91%
IMPERIAL	482	45,966,294	1.35%	32	6.64%	13	2.70%	32	6.64%	77	15.98%
SONOMA	399	77,779,295	2.28%	16	4.01%	6	1.50%	17	4.26%	39	9.77%
OTHER COUNTIES	3,502	492,357,007	14.43%	141	4.03%	51	1.46%	246	7.02%	438	12.51%
Total CalHFA	19,924	$ 3,410,893,727	100.00%	869	4.36%	358	1.80%	1,572	7.89%	2,799	14.05%

Cal HFA California Housing Finance Agency

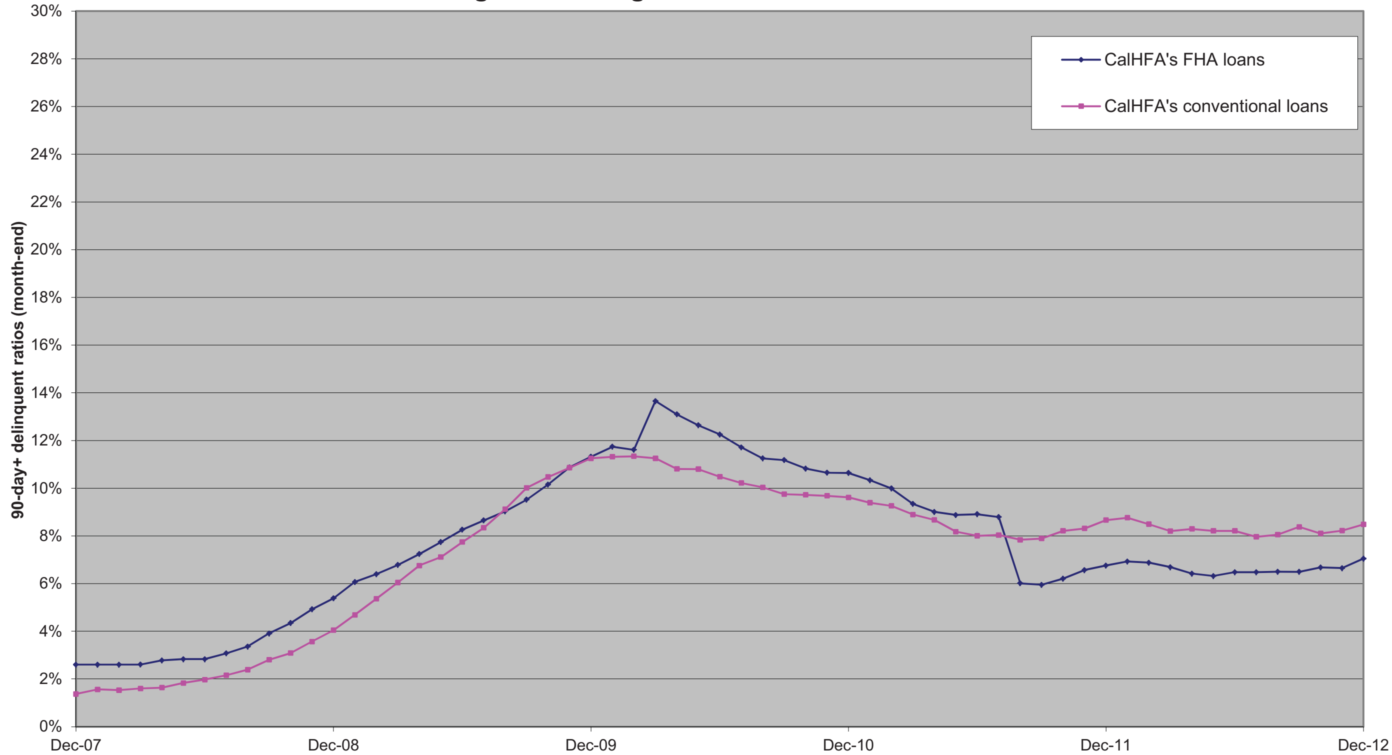
CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day
As of December 31, 2012



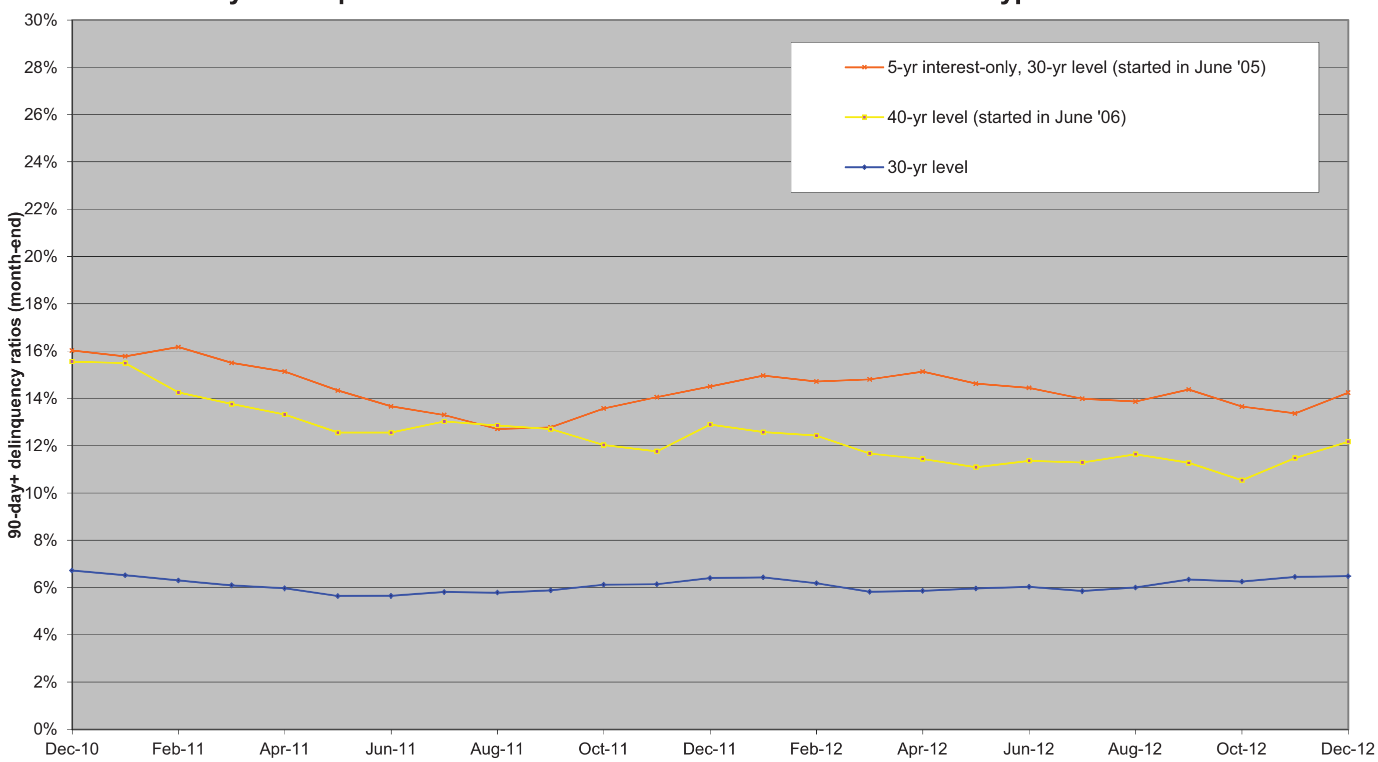
CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day
As of December 31, 2012



90 day+ delinquent ratios for CalHFA's FHA and weighted average of all Conventional Loans



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



Real Estate Owned

Calendar Year 2013 (As of January 31, 2013)												
			**Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Prior Calendar Adj.	Reverted to CalHFA January	Reverted to CalHFA	Total Trustee Sales	Repurchased by Lender January	Market Sale(s) January	Repurchased by Lender	Market Sale(s)	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	45	(2)	17		17	18				18	42	$ 7,204,173
Conventional	161	0	50		50		38			38	173	42,722,399
Total	206	(2)	67	0	67	18	38	0	0	56	215	$ 49,926,572

Calendar Year 2012							
			*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Prior Calendar Adj.	Reverted to CalHFA 2012	Repurchased by Lender 2012	Market Sale(s) 2012	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	124	(18)	312	373		45	$ 7,884,581
Conventional	565	3	786		1,193	161	40,029,375
Total	689	(15)	1,098	373	1,193	206	$ 47,913,957

Calendar Year 2011						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2011	Repurchased by Lender 2011	Market Sale(s) 2011	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	198	496	570		124	$ 22,948,976
Conventional	1084	1311		1830	565	123,482,821
Total	1282	1807	570	1830	689	$ 146,431,797

Calendar Year 2010						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2010	Repurchased by Lender 2010	Market Sale(s) 2010	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	187	816	805		198	$ 41,905,865
Conventional	619	1551		1086	1084	226,793,920
Total	806	2367	805	1086	1282	$ 268,699,784

**3rd party trustee sales are not shown in the tables (tItle to these loans were never transferred to CalHFA). There were eight (8) 3rd party sales in calendar year 2008, eighteen (18) 3rd party sales year 2009, thirty-nine (39) 3rd party sales year 2010, twenty two (22) 3rd party sales in calendar year 2011, forty two (42) 3rd party sales in calendar year 2012, and there are six (6) 3rd party sales to date 2013.*

Cal HFA California Housing Finance Agency

Accumulated Uninsured Losses as of January 31, 2013						
Conventional Loans	# of Properties Sold	Principal Write-Offs [1]	# of GAP Claims	Actual GAP[2] Claim Payments	# of Subordinate Loans	Subordinate Write-Offs [3]
REOs Sold	4,743	$ (174,498,073)	2,601	$ (117,367,774)		
Short Sales	1,032	(42,866,653)	395	(17,461,359)	2,855	$ (25,030,467)
3rd Party Sales	53	(196,576)	4	(170,867)	129	(1,134,231)
Write-offs resulting from foreclosures					9,475	(91,143,399)
Total:	5,828	$ (217,561,303)	3,000	$ (135,000,000)	12,459	$ (117,308,097)

(1) Principal loan write-offs from January 1, 2008. Does not include allowance for loan losses or loan loss reserves.

(2) The California Housing Loan Insurance Fund (the MI Fund") provided GAP insurance to meet HMRB bond indenture requirements that all loans held within that indenture have 50% of the unpaid principal balance insured by a mortgage insurance policy for the life of the loan. The insurance may be provided by any combination of government insurance, private mortgage insurance, or a policy from the MI fund. The Agency agreed, pursuant to an internal interfund agreement, to indemnify the MI Fund for claims paid for principal losses under the GAP insurance policy, up to a cumulative maximum amount of $135 million, this maximum amount was reached in August 2011. The indemnification is payable solely from available funds held in a sub account within the California Housing Finance Fund.

(3) Includes both FHA/Conventional Loans.

2013 Year to Date Composition of 1st Trust Deed Loss
(As of January 31, 2013)

Loan Type	Disposition				Principal Write-Offs
	Repurchased by Lender	Market Sales	Short Sales	Loan Balance at Sales	
FHA/RHS/VA	18		4	$ 4,333,239	
Conventional		38	45	20,716,304	$ (3,700,591)
	18	38	49	$ 25,049,543	$ (3,700,591)

2013 Year to Date Composition of Subordinate Write-Offs by Loan Type[1]
(As of January 31, 2013)

Loan Type	Active Loans		Write-Offs	
	Active Loans	Dollar Amount	Number of Write-Offs	Dollar Amount
CHAP/HiCAP	7,899	$84,236,248	83	$936,904
CHDAP/ECTP/HiRAP	25,107	181,999,046	66	463,608
Other [2]	228	2,984,422	0	0
	33,234	$269,219,716	149	$1,400,512

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

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

State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 21, 2013

Timothy Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: AGENCY BONDS, INTEREST RATE SWAPS, AND FINANCING RISK FACTORS REPORT

The following report describes our bond and interest rate swap positions as well as the related risks associated with variable rate and swap strategies. The report is divided into sections as follows:

1) Outstanding Bonds
2) Variable Rate Debt
    a) Variable Rate Debt Exposure
    b) Types of Variable Rate Debt
    c) Liquidity Providers
    d) Interest Rate Swaps
3) Financing Risk Factors
    a) Unhedged Variable Rate Risk
    b) Basis Risk
    c) Amortization Risk
    d) Termination Risk
    a) Collateral Posting Risk

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1) OUTSTANDING BONDS

Below is the Agency's outstanding debt position. This table does not include any pass-thru or conduit financings which makes up an additional $434 million

BONDS OUTSTANDING
As of January 1, 2013
($ in millions)

	Fixed Rate	Variable Rate	Totals
Single Family	$2,031	$1,837	$3,868
Multifamily	396	461	857
TOTALS	$2,427	$2,298	$4,725

2) VARIABLE RATE DEBT

a) VARIABLE RATE DEBT EXPOSURE

Over the years the Agency has integrated the use of variable rate debt as a primary issuance strategy in providing capital to support its programmatic goals. Most of our interest rate exposure from variable rate debt is hedged in the swap market.

This section describes the variable rate bonds of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), and HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans). The total amount of CalHFA variable rate debt is $2.3 billion, 48% of our $4.7 billion of total indebtedness as of February 1, 2013.

VARIABLE RATE DEBT
($ in millions)

	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB (SF)	$946	$864	$1,810
MHRB (MF)	367	82	449
HPB (SF & MF)	0	39	39
Total	$1,313	$985	$2,298

b) TYPES OF VARIABLE RATE DEBT

The following table shows our variable rate debt sorted by type, i.e., whether auction rate, indexed rate, or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us or to a third party by investors; hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$0	$671	$1,139	$1,810
MHRB	106	0	343	449
HPB	0	0	39	39
Total	$106	$671	$1,521	$2,298

c) LIQUIDITY PROVIDERS

On October 19, 2009, the United States Treasury (Treasury) announced a new initiative for state and local housing finance agencies (HFAs) to provide a new bond purchase program to support new lending by HFAs and to provide a temporary credit and liquidity program (TCLP) to improve access of HFAs to liquidity for outstanding HFA bonds. On December 23, 2009, the Agency closed eight TCLP transactions with Treasury to replace the liquidity for $3.5 billion of variable rate bonds. The new liquidity became effective in January 2010 on the mandatory tender dates of the bonds with an initial expiration date of December 23, 2012. However, the Agency successfully negotiated with Treasury to extend the deadline for the TCLP to December 23, 2015.

The table below shows the government-sponsored enterprises (GSE) which are providing liquidity in the form of standby bond purchase agreements for our VRDOs.

LIQUIDITY PROVIDERS
As of 2/1/2013
($ in millions)

Financial Institution	$ Amount of Bonds
Freddie Mac	$ 760
Fannie Mae	760
Total	$1,520

d) Interest Rate Swaps

Currently, we have a total of 88 “fixed-payer” swaps with eleven different counterparties for a combined notional amount of $1.9 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. The table below provides a summary of our swap notional amounts.

FIXED PAYER INTEREST RATE SWAPS
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
HMRB	$1,218	$159	$1,377
MHRB	557	0	557
TOTALS	$1,775	$159	$1,934

SWAPS
($ in millions)

	Hedging Bonds	Not Hedging Bonds	Totals
HMRB	$946	$431	$1,377
MHRB	367	190	557
TOTALS	$1,313	$621	$1,934

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today’s market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our February 1, 2013 semiannual debt service payment date we made a total of $40 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

The table on the following page shows the diversification of our fixed payer swaps among the thirteen firms acting as our swap counterparties.

SWAP COUNTERPARTIES

Swap Guarantor	Credit Ratings Moody's	S & P	Notional Amounts Swapped as of 2/1/2013 ($ in millions)	Number of Swaps
Merrill Lynch Derivative Products	Aa3	AAA	$ 577	34
JPMorgan Chase Bank, N.A.	Aa3	A+	410	16
Goldman Sachs Mitsui Marine Derivative Products, , L.P.	Aa2	AAA	209	7
Citigroup Financial Products, Inc.	Baa2	A-	189	7
AIG Financial Products, Corp. [2]	Baa1	A-	187	7
Deutsche Bank AG	A2	A+	171	10
Morgan Stanley Capital Services, Inc.	Baa1	A-	97	2
BNP Paribas	A2	A+	46	2
Bank of New York Mellon	Aa1	AA-	25	1
UBS AG	A2	A	13	1
Dexia Credit Local New York Agency [2]	Baa2	BBB	10	1
			$ 1,934 [1]	88

[1] *Basis Swaps not included in totals*

[2] *Swap counterparty's rating has triggered Additional Termination Event (ATE); Agency has right to terminate the associated swaps; additionally, the rating agencies no longer consider these swaps to be effective hedges see "Termination Risk" section of report*

3) FINANCING RISK FACTORS

a) Unhedged Variable Rate Risk

As shown in Sec. 2(a), the Variable Rate Debt table, our "net" variable rate exposure is $985 million, 21% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments. The $985 million of net variable rate exposure ($577 million taxable and $408 million tax-exempt) is offset by the Agency's variable rate investments and excess swap positions. The Agency's balance sheet has: i) $567 million (six month average balance) of non-bond indenture related funds invested in the State Treasurer's investment pool (SMIF) earning a variable rate of interest; and, ii) $621 million notional amount of interest rate swaps in excess of the hedged bonds.

From a risk management perspective, these two positions serve as a balance sheet hedge for the $985 million of net variable rate exposure.

In order to estimate the "true" unhedged position to the Agency, first, the overhedged swaps were used to offset the unhedged bonds. Then, the remaining tax-exempt unhedged bonds were converted into their equivalent taxable basis. Using this conversion method, the $985 million of net variable rate exposure translates to $577 million of net variable rate exposure. This $577 million is further reduced by the $567 million of funds invested in SMIF. Thus the "true" net variable rate debt is -$168 million which, from the Agency's balance sheet perspective, means there is no net unhedged position.

In addition, taking unhedged variable rate exposure mitigates the amortization risk without the added cost of purchasing swap optionality. Our unhedged variable rate bonds are callable on any date and allow for bond redemption or loan recycling without the cost of par termination rights or special bond redemption provisions. In addition, taking unhedged variable rate exposure diversifies our interest rate risks by providing benefits when short-term interest rates rise slower than the market consensus. In a liability portfolio that is predominately hedged using long-dated swaps, the unhedged exposure balances the interest rate profile of the Agency's outstanding debt.

b) BASIS RISK

Almost all of our swaps contain an element of what is referred to as "basis risk" – the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because our swap floating rates are based on indices, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues. The only exception is where our taxable floating rate bonds are index-based, as is the case of the taxable floaters we have sold to the Federal Home Loan Banks.

The relationship between the two floating rates changes as market conditions change. Some of the conditions that contributed to our extreme basis mismatch in 2009 and early 2010 were the collapse of the auction rate securities market, the impact of bond insurer downgrades, the funding of bank bonds at higher rates, and SIFMA/LIBOR ratio at historically high levels over 100% We responded to the market disruption by refunding, converting, or otherwise modifying many of the under performing auction rate securities and insured VRDOs, and we eliminated bank bonds by taking advantage of the Temporary Credit and Liquidity Program offered by the federal government.

The new Temporary Credit and Liquidity Program from the federal government and the GSEs has significantly reduced basis mismatch. As part of this process, all bond insurance was removed from VRDOs and the federal government now provides direct credit support on all CalHFA VRDOs. This has allowed CalHFA VRDOs to reset with little or no spread to SIFMA. Since January 2010, our VRDOs have reset at an average of 2 basis points or 0.02% below SIFMA, whereas in 2009, our VRDOs were resetting at an average of 106 basis points or 1.06% above SIFMA. The main risk that exists is that the SIFMA/LIBOR ratio continues to be high and as market rates rise our basis mismatch may remain higher than expected due to general market conditions.

The floating formulas of Agency swaps are usually indexed to LIBOR or SIFMA. LIBOR is the London Interbank Offered Rate index which is used to benchmark taxable floating rate debt, and SIFMA is the Securities Industry and Financial markets Association Index to benchmark tax-exempt variable rates. When the SIFMA/LIBOR ratio is very high, the swap payment we receive falls short of our bond payment, and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low. We continually monitored the SIFMA/LIBOR relationship and the performance of our swap formulas and made certain adjustments to the formula. The following table displays the SIFMA/LIBOR ratio for the past eight calendar years.

Average SIFMA/LIBOR Ratio			
2006	68%	2010	96%
2007	69%	2011	79%
2008	84%	2012	69%
2009	123%	2013 to date	46%

The table below shows the diversification of variable rate formulas used for determining the payments received from our interest rate swap counterparties.

BASIS FOR VARIABLE RATE PAYMENTS
RECEIVED FROM SWAP COUNTERPARTIES
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
% of LIBOR (+ spread)	$1,199	$0	$1,199
SIFMA (+ spread)	380	0	380
Stepped % of LIBOR [1]	190	0	190
3 mo. LIBOR (+ spread)_	0	91	91
% of SIFMA	19	0	19
1 mo. LIBOR	0	35	35
3 mo. LIBOR	0	13	13
6 mo. LIBOR	0	7	7
TOTALS	$1,788	$146	$1,934

[1] Stepped % of LIBOR – This formula has seven incremental steps where at the low end of the spectrum the swap counterparty would pay us 85% of LIBOR if rates should fall below 1.25% and at the high end it would pay 60% of LIBOR if rates are greater than 6.75%.

c) **<u>AMORTIZATION RISK</u>**

Our bonds are generally paid down (redeemed or paid at maturity) as our loans are prepaid. Our interest rate swaps amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have generally been designed to accommodate prepayment rates between two and three times the “normal” rate. Our interest rate swaps generally have had fixed amortization schedules that can be met under a sufficiently wide ranges of prepayment speeds. In addition, swaps that were entered into after 2003 had swap termination options which allowed the Agency to terminate all or portions of the swap at par (no cost to terminate). The table below shows the par terminations that the Agency has exercised to date.

	Swap Par Options Exercised ($ in thousands)
2004	$12,145
2005	35,435
2006	20,845
2007	28,120
2008	18,470
2009	370,490
2010	186,465
2011	288,700
2012	361,975
2013	112,415
	$1,435,060

The table below shows the speed at which the Agency’s single family first mortgage loans have been prepaying for the past five years.

SEMI-ANUAL PREPAYMENT SPEED
FOR PAST FIVE YEARS

6-mo Period Ending:	PSA
Jun-2007	156%
Dec-2007	81%
Jun-2008	60%
Dec-2008	58%
Jun-2009	89%
Dec-2009	128%
Jun-2010	165%
Dec-2010	236%
Jun-2011	255%
Dec-2011	299%
Jun-2012	278%

Of interest is an $621 million overswap mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has occurred for two reasons: 1) as a result of the interplay between loan prepayments and the "10-year rule" of federal tax law and 2) the strategic debt management of the Agency to redeem bonds that were hedged but were associated with troubled or problematic financial partners. While some of our bonds are "over-swapped", there are significantly more than enough unswapped variable rate bonds to compensate for the mismatch. To mitigate our overswapped position, we continually monitor the termination value of our "excess swap" position looking for opportunities to unwind these positions when market terminations would be at minimal cost or a positive value to us and by exercising the par swap options as they become available.

d) Termination Risk

Termination risk is the risk that, for some reason, our interest rate swaps must be terminated prior to their scheduled maturity. Our swaps have a market value that is determined based on current interest rates. When current fixed rates are higher than the fixed rate of the swap, our swaps have a positive value to us (assuming, as is the case on all of our swaps today, that we are the payer of the fixed swap rate), and termination would result in a payment from the provider of the swap (our swap "counterparty") to us. Conversely, when current fixed rates are lower than the fixed rate of the swap, our swaps have a negative value to us, and termination would result in a payment from us to our counterparty.

Our swap documents allow for a number of termination "events," i.e., circumstances under which our swaps may be terminated early, or "unwound". One circumstance that would cause termination would be a payment default on the part of either counterparty. Another circumstance would be a sharp drop in either counterparty's credit ratings and, with it, an inability (or failure) of the troubled counterparty to post sufficient collateral to offset its credit problem. It should be noted that, if termination is required under the swap documents, the market determines the amount of the termination payment and who owes it to whom. Depending on the market, it may be that the party who has caused the termination is owed the termination payment.

Termination Value History

Date	Termination Value ($ in millions)
6/30/11*	($253)
9/30/11	($338)
12/31/11	($330)
3/31/12	($302)
6/30/12	($324)
9/30/12	($330)
12/31/12	($294)

** As reported in the Financial Statements*

e) COLLATERAL POSTING RISK

Some ISDA agreements that we have entered into with the swap counterparties have collateral posting requirements. These postings are a function of the mark-to-market, ratings, threshold amounts, independent amounts and any collateral already posted. Our trades are valued weekly, and our collateral position is adjusted weekly based on those valuations. Failure to post the required collateral can result in a termination event.

The table below shows the required collateral amounts currently posted to swap counterparties. In the past months, falling interest rates have caused the swaps to have a negative value to the Agency thereby increasing the amount of collateral being posted to the counterparties.

Swap Collateral Posting
as of 2/20/2013
($ in millions)

	JPMorgan	Goldman Sachs	BofA	BofA / Merrill Lynch	Deutsche	AIG	Total
Marked-to-Market	57.3	32.25	56.08	31.47	33.38	14.42	
Credit Support Amount	23	18.5	6.25	18.1	3.38	0	69.23

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