# CHFA BOARD OF DIRECTORS

**Thursday,** January **11,2001**

Clarion Hotel
**San Francisco International Airport**
Millbrae, California
**(650) 692-6363**

9:30 a.m.

**NOTES**

HOTEL PARKING: Parking is available as follows: 1) overnight self-parking for hotel guests is $12.00 per night; and 2) rates for guests not staying at the hotel is $2.00 for the first two hour period, $2.00 for the second two hour period, and $1.00 per additional hour (up to 10 hours).

FUTURE MEETING DATE: Next CHFA Board of Directors Meeting will be March 8, 2001, at the Host Airport Hotel, Sacramento Jnternational Airport.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

ORIGINAL

BOARD OF DIRECTORS

PUBLIC MEETING

The Clarion Hotel
San Francisco International Airport
401 East Millbrae Avenue
Millbrae, California

Thursday, December 7, 2000
9:30 a.m. to 2:17 p.m.

"Minutes approved by the Board of Directors at its meeting held:
December 7, 2000

Attest: ____________________

Reported and Transcribed by: Ramona Cota

# A P P E A R A N C E S

**Directors Present:**

CLARK WALLACE, Chairman

JULIE I. BORNSTEIN

EDWARD M. CZUKER

ANGELA L. EASTON

CARRIE A. HAWKINS

ROBERT N. KLEIN 11

ANGELO R. MOZILO

LUPITA OCHOA

I'HERESA A. PARKER

WILLIAM SHERWOOD

**Staff Present:**

SANDY CASEY-HEROLD, Acting General Counsel

JOJO OJIMA

**For the Staff of the Agency:**

KENNETH R. CARLSON, Director of Financing

GREGORY CARTER, Acting Director, Single Family Lending

RICHARD A. LaVERGNE, Chief Deputy Director

LINN G. WARREN, Director, Multifamily Lending

KATHLEEN WEREMIUK, Mortgage Loan Officer

## A P P E A R A N C E S

**Counsel to the Agency:**

STANLEY J. DIRKS, Orrick, Herrington & Sutcliffe

**Members of the Public (In Order of Appearance:**

BRENDA McIVOR, The Cedars of Marin

BETTY LeFEVRE, The Cedars of Marin

KATHERINE L. CRECELIUS, Housing Consultant

DANIEL J. HOWELL, Robert F. Driver Company

PETER SHAPIRO, Swap Financial Group

# I N D E X

PROCEEDINGS

THURSDAY, DECEMBER 7, 2000 MILLBRAE, CALIFORNIA 9:35 A.M.

CHAIRMAN WALLACE: I would like to call the meeting of the Board of Directors of the California Housing Finance Agency to order. It looks like we have a quorum but I will ask the secretary to call the role.

ROLL CALL

MS. OJIMA; Thank you. Mr. Sherwood for Mr. Angelides?

MR. SHERWOOD: Here.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Here.

MS. OJIMA: Ms. Contreras-Sweet?

(No response).

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Here.

MS. OJIMA: Ms. Easton?

MS. EASTON: Here.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Here.

MS. OJIMA: Mr. Hobbs?

(No response).

MS. OJIMA: Mr. Klein?

MR. KLEIN: Here.

MS. OJIMA: Mr. Mozilo?

MR. MOZILO: Here.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Here.

MS. OJIMA: Mr. Gage?

(No response).

MS. OJIMA: Ms. Ochoa for Mr. Nissen?

(No response).

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: We have a quorum.

CHAIRMAN WALLACE: Thank you. We have a quorum.

**APPROVAL OF THE MINUTES OF THE OCTOBER 12, 2000 MEETING**

Item 2 on the agenda is approval of the minutes of our October 12 meeting. *Any* comments, additions or deletions? Hearing none the Chairman will entertain a motion of approval.

MR. CZUKER: So moved

MR. MOZILO: I move.

MR. CZUKER: Second.

MR. MOZILO: Second.

CHAIRMAN WALLACE: There is a significant rebound effect going on in our system here, to the point where I hear two people moving and two people seconding. I'm going to allocate this one to Mozilo and Czuker in that order.

MS. OJIMA: Mozilo and Czuker.

CHAIRMAN WALLACE: Okay? Any discussion by either the Board or the audience on the minutes? Hearing and seeing none, secretary, call the roll.

MS. OJIMA: Thank you. Mr. Sherwood?

MR. SHERWOOD: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Aye.

MS. OJIMA: Ms. Easton?

MS. EASTON: Aye.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Mozilo?

MR. MOZILO: Aye.

MS. OJIMA: Mr. Wallace?

MR. WALLACE: Aye.

MS. OJIMA: The minutes have been approved.

CHAIRMAN WALLACE: Thank you. Item 2, the minutes of the October 12, 2000 meeting have been approved.

CHAIRMAN/EXECUTIVE DIRECTOR COMMENTS

Item 3 is where the Chairman and/or the Executive Director, and usually both, have some comments or otherwise non-agendized items to share. Let me say that we have, as you know, a full day, especially since we have added to an otherwise fairly heavy agenda this afternoon's workshop. So the program is going to go something like this: I would hope that we can complete the main agenda, through at least Item 8, by noon. Or if we're fortunate, even a little before. If we are able to do that I'm going to try and move Item 9b up as part of the main agenda rather than at the tag end of the workshop. If we are not so fortunate then we'll play it by ear. At 12:30 we're going to be served lunch in this room. Am I right?

MS. OJIMA: Correct.

CHAIRMAN WALLACE: In this room. It will be pretty casual. We'll slough around for 20 minutes or so. No later than one o'clock, however, I would like to get into the workshop for which I anticipate, at least Item A on the swaps and so on, we have allocated about an hour and a half as per our discussion at the last Board Meeting. Then we have Item B pending, as I mentioned earlier.

So we are going to be on a tight schedule. I worry a little bit about planes and people leaving, at the latest, 2:30. I know some people, one or two maybe, even have to leave before that. So I'm going to ask you to keep your comments as much on point as possible. I don't want to short-change discussion but I do want to see us out of here no later than 2:30. With that in mind, any comment on the program, Board or audience?

If not, I understand that we have got a group from Cedars of Marin before us who want to make a presentation to the Board. We approved a project called the Walter House last June. It was a unique, kind of special needs-type project. We are not going to test you on your memory from June but there are some representatives from Cedars of Marin, the project sponsor. I understand the Executive Director, Brenda McIvor is here, Kathy Crecelius and Betty LeFevre, the President of the Board. At this time we would entertain your coming forward and make whatever presentation you care to make.

Where do we want you, Betty? Over by Linn Warren here there's a microphone and two-and-a-half seats. (Laughter). And Betty, I presume you're the lady in red.

MS. LeFEVRE: This is Brenda. This is Brenda and I'm Betty.

CHAIRMAN WALLACE: Brenda, Betty. Who is going to kick this off?

MS. LeFEVRE: Brenda will be the speaker.

CHAIRMAN WALLACE: Brenda, welcome, we're happy to have you. We were happy to make that loan, too.

MS. McIVOR: We are so grateful. The Cedars of Marin serves 150 people with developmental disabilities in eight different residences and through four different day programs and we are always having difficulty finding money to put together new resources for the people we serve.

We are just here to thank you for the special needs affordable housing loan program, and especially for the loan for Walter House. In May 1999 you approved it through the special needs loan commitment, it was completed in March of 2000 and the loan closed this past September. It's a small loan, only $350,000.

It's probably a small project because it's a 3400 square foot home, but it is filled with so much love and so much joy you just would be so excited and pleased. It is a big deal for us and it is a huge deal for the people who live there. They are thrilled to have their home, they are thrilled to have the privacy of their bedrooms. They are thrilled to talk about their fishing experiences and their athletic experiences and do their shopping and do their banking and invite friends over for dinner and just all those kind of wonderful things.

If you ever get a chance to be in Marin County please call us and please visit and meet these individuals and talk with them about their experiences and how much this all means to them. We know that the special needs program produces the fewest units and requires the most effort of all of your programs. Your staff have invested lots of time to originate and service this loan. The interest rate is subsidized with significant amounts of Agency funds. But this program is so important to us and to other nonprofits to provide housing for very-low income individuals with disabilities and we thank you so very much for your time and commitment to this program.

So we would like to acknowledge some people, special people, with plaques and the first is Terri Parker. We would like to thank you for supporting our special needs program and allowing all the extra staff time required to administer the program. Thank you very much, Terri.

(Plaque presented)

The individuals on the plaque are the happy campers who live in the home.

CHAIRMAN WALLACE: Terri is going to pass it around, but apparently there is a picture --

MS. McIVOR: There's a picture also. I'll bring that up to you.

CHAIRMAN WALLACE: Of some of your happy campers.

MS. McIVOR: They just are so pleased and excited. And we had people from the licensing, because there are not many new houses being built, who Came out. So I always have the residents, you know, be the hosts and the hostesses. So they really got involved in just everything. I thought that they'd be there for a very long time. It was just a fun, fun visit. So we have a lot of people coming over all the time.

We also have an award for Linn Warren who helped all of us with some of the minutiae, you know, the tricky parts where sometimes things don't fit just exactly right.

CHAIRMAN WALLACE: She's going to pass it.

MR. WARREN: Thank you very much.

CHAIRMAN WALLACE: That's our Linn.

MS. McIVOR: So we could brainstorm creative solutions. And Kathy Weremiuk has just been phenomenal. I know she's here. She asked a lot of questions, she gave us a lot of time. Her commitment was just wonderful. It was just wonderful because it was such a new thing for everybody.

We want to thank all the rest of you who worked with us and we hope that the photo will find a home in either Sacramento or Culver City. And so now that I have said *thank you* for a million times I will let you get back to your agenda and your work for the day.

CHAIRMAN WALLACE: Well, we want to thank you. And I can tell you, every time we do a special needs project, and yours was about the third, to my recall--it grabs us all a little deeper. And so to be able to work with people like you and see it actually come to fruition is a thrill for us as well. So we are very proud to be a part of it. You will find, I'm sure, these plaques in probably the Sacramento office. I'm sure we all join in saying, keep up the good work, come back and do another if you can handle it.

MS. CRECELIUS: We'll be back.

MS. McIVOR: And I think Katie Crecelius --

CHAIRMAN WALLACE: We do know Katie.

MS. McIVOR: Who was the person who really --

CHAIRMAN WALLACE: So Brenda, Betty and Katie and all your organization, we very much appreciate what you have done so far. I'm sure it's a real credit to your community and we look forward to seeing you again in the not-too distant future. Keep those plaques and letters coming.

MS. PARKER: Mr. Chairman, we would just like to acknowledge that Katie is a former -- she's a CHFA alumni so we're keeping this very much in the family. We will be placing this in Sacramento given that it's a Northern California facility. We want to, essentially, keep it up here in the north. But we will place the plaque and the picture in a prominent position because this is the kind of project that the staff and the Board really can use as a testament to why we are all doing our jobs on a daily basis.

MS. McIVOR: Oh, yes.

MS. PARKER: We particularly thank you for taking the time to let us know when we have done something, from your perspective, that's really right. It was good.

CHAIRMAN WALLACE: Congratulations to all of us.

MS. McIVOR: Thank you.

MS. LeFEVRE: Thank you.

MS. CRECELIUS: Thank you.

CHAIRMAN WALLACE: On that happy note, let's move on and do some projects.

MS. PARKER: Mr. Chairman, I -- I promise to be brief.

CHAIRMAN WALLACE: Terri has a few astute remarks.

MS. PARKER: But I do need to just take one moment of time.

CHAIRMAN WALLACE: Sure.

MS. PARKER: And primarily just to give you a little bit of an update on staffing. We do have a new member of our staff here to answer any questions should they arise on single family. Jerry Smart is filling behind on an acting basis for Ken Williams who is our chief of single family and in an acting capacity upon the retirement of Mr. Schermerhorn.

Ken, because of a number of reasons, just made a very difficult decision of retirement. His family, his parents are ill and he, as an only son and a very dutiful son, wanted to be able to have more time to assist them. So Ken resigned from the Agency. We had a party for him. But we will be very active in dealing with a longer term solution of having our leadership for the single family program. But in the interim we have a very, very competent staff, we are not missing a beat, and Jerry will be available should there be any Board discussions or Board questions on the single family side. So I just wanted to let you all know that.

The Annual Report, in case you didn't get it in the mail, is at your desks. We are very pleased with this report because it is our 25 year anniversary. It also was delivered to the Legislature on time, which is the first time we have accomplished this in a couple of years so we are quite proud of that.

And then just last but not least I am disappointed to tell you all I think we had all hoped for success with the tax bill this year. We were in a very, very positive position to have bond cap and tax credit increases effective, we were thinking, in January of 2001. Unfortunately, I think that the tax bill became just another victim of the unfortunate problem with no resolution to the presidential race. So we will be back again with a new Congress after the first of the year working on that item. So I will be giving you all any kind of information and update on that.

CHAIRMAN WALLACE: Can't we have a recount?

MS. PARKER: That concludes my comments, Mr. Chairman.

CHAIRMAN WALLACE: Mine too. Jerry, please stand up and identify yourself. That's Jerry Smart, okay? So he is in charge of single family for now. Thank you. Now is it okay to move on to the projects? Absolutely. Linn, you're on.

RESOLUTION 00-37

MR. WARREN: Thank you, Mr. Chairman. Our first project for your consideration today in your materials is the Willow Glen Senior Apartments in San Jose. The request in front of you today is for a first mortgage loan of $9,700,000 at an interest rate of 6.1 percent for 30 years.

This is a bond re-funding program, which the Board will recall from our last session, in which the bond allocation has been secured by the City of San Jose in the amount of approximately $11.4 million for the purposes of construction period financing. The bonds themselves are privately placed with Wells Fargo and the Agency would like to issue a commitment for a two year takeout in the future to retire these bonds in a re-funding manner.

The interest rate, as you will notice, is 6.1. That is 20 basis points higher than our 5.9 rate. The additional increase in the rate is to purchase an anticipatory hedge for the two year period in the future. Let me take a moment now and run through the site.

(Video presentation of project begins.)

There are actually two sites to Willow Glen. The project will be built in two components. This is the northern road for site A. The general neighborhood of the area. There is some light industrial from a historic basis but it is also intermixed with this older residential neighborhood. Again, this is site A looking on Willow Glen Way. The industrial area is sort of behind this site.

Again now, site B on Willow Glen Way. Site B looking down Almaden Road. Almaden, for those of you that are not familiar with.San Jose, is a fairly heavily traveled area but it also allows for a lot of service connection with busses for the tenants. Again, site B. You can get the industrial nature around some of the area that will be cleared out for future development.

This is an indication of the rents. The rent pressures in San Jose are increasing. There has been some minor softening in the market in San Jose but nothing of any appreciable degree. And you can appreciate here the differential in the rents between the 45 percent rents, the 50 percent rents, compared to market. The rent structure is a function of the CDLAC allocation and with the requirements imposed by the City of San Jose.

The other financing involved in this, as you will see from your materials in your Sources and Uses there is a significant contribution from the City of San Jose, $8.4 million. They will also be receiving four percent tax credits in the amount of $4,266,000. The affordability, as I indicated, is a component of the rents at 45 percent of median and the balance at 50 percent. CHFA will be regulating its normal 20 percent at 50.

(Video presentation of project ends.)

The developer in this particular project is the Related Companies. It is an organization that is very well known to us. We did another new construction project recently in San Jose called Parkside Glen which I believe came on line about a year-and-a-half ago, also with Related. As the Board will recall they are also the sponsor for the El Rancho Verde preservation project with 700 units in the area. Related will also be property manager.

The managing nonprofit general partner is Community Housing Developers. This nonprofit is also a developer and sponsor in their own right. They have a number of projects of their own in the San Jose area. As a matter of fact, they have come to us recently with a request to refinance about seven of their projects throughout San Jose that are approximately 20 years old.

So with that, again, we think we have a good combination of a strong market thoroughly in need for affordable senior housing in the Santa Clara area coupled with a very strong sponsor. With that we would like to recommend approval and answer any questions.

CHAIRMAN WALLACE: Linn, we are so used to seeing Wells Fargo as a lender. How did we get them as a borrower?

I thought they were bigger than --

MR. WARREN: I may have misspoke. They are the construction lender in this particular area. They are acquiring the bonds, Mr. Chairman, in a private placement. Then when our bond re-funding is completed then we will retire their ownership of the bonds in two years. So they are the lender. If I misspoke I apologize.

CHAIRMAN WALLACE: So we're an intermediary? How did we get into this?

MR. WARREN: Actually more of a secondary marketing role, I would think, would be a better way to phrase it. One of the advantages of the bond re-funding program is to allow the localities to issue the bonds themselves, have control over that process, which many localities wish. But in many instances they are not able to provide through private credit enhancement the long term rate that we can offer. So there is this construction period financing.

Wells Fargo receives CRA credits for their involvement as construction lender. But quite frankly, many of these private banks do not wish to hold the tax-exempt paper for the full 30 years. So we have a good relationship with this program where we allow them to operate financially, get their CRA credits, but also we can retire those bonds so they can get out of the transaction then we put our long-term financing on the project.

CHAIRMAN WALLACE: Bob.

MR. KLEIN: This project utilizes property tax exemption; is that correct?

MR. WARREN: Yes.

MR. KLEIN: It is my understanding that the Board of Equalization in reviewing partnership agreements to qualify under the new wording format template that they have approved has 700 or more cases backed up. Is that correct?

MR. WARREN: I'm not familiar with the number, Mr. Klein.

MR. KLEIN: The issue here is that we are utilizing, as other issuers in the state are utilizing, the assumption that property tax exemption will be provided in an orderly, predictable fashion. I suggest that it is appropriate and essential in projects like this: But I think that potentially as we go forward and continue to approve projects assuming we are going to get property tax exemption, that we need to intervene at the Board of Equalization.

My understanding is partnerships have some years approved, some years denied for the same project and that there is a massive backlog, with some projects not getting property tax exemption for two or three years after the project pro forma proposed that there would be property tax exemption in place. So in our own reserves and on behalf of our borrowers, I would think that we need to be proactive in this area. Maybe someone else -- Julie, do you have any information on this?

MS. BORNSTEIN: I don't have any information of the numbers in the backlog. I know it's an issue that has been raised at a number of discussions that we have had. It's probably worth at least having staff look into.

CHAIRMAN WALLACE: Okay.

MR. WARREN: In our underwriting, Mr. Klein, before we loan-close the status of the exemption is looked at. Clearly, because it would not underwrite according to the pro formas. One of the benefits, I suppose, of waiting two years during the construction period is it really gives the sponsors time to do this. And there are situations in which the exemption will arrive on an estimated date and we will escrow and impound the necessary taxes to cover the period that has not been fully exempted.

So as we get into our loan-close cycle it is one of the issues that we look at. What is the status of the exemption? Is it in the same amount that the loan was underwritten to? And arguably, if it is at variance then obviously the Agency reserves the right to reduce the loan accordingly.

MR. KLEIN: I think we do need to proceed on the assumption that the legislative intent is going to be fulfilled by the Board of Equalization but there is a tremendous amount of volatility as to what the people on that board and the staff think that intent was. So I would suggest and request that the staff look at that if many projects which are through construction need that exemption immediately.

As a second question: In tenns of the predictable deregulation of northern California utilities and the pass-through of the utility costs, the impact on the net tenant rents in the feasibility. I'm wondering whether we need to delegate to the Director of Multifamily and Terri Parker some discretion in how we write our documents so that if heavy utility costs are passed through that the percentage of tenants at 45 percent of median could be varied. That there could be some regulatory flexibility built into our documents here.

We don't know exactly how hard we're going to get hit with these utility changes but it is predictable it is going to be fairly severe. It could knock ten basis points off our debt service coverage. I would like to at least discuss in this context if there is some other solution or how you would feel about creating some regulatory up-front discretion to modify our requirements--and asking the City of San Jose to do the same--so we are approving a project prospectively where we have built in the flexibility to respond to conditions that we don't fully understand.

MR. WARREN: I think that from a lending standpoint, clearly, as we have discussed in the past, with utility costs we have a number of devices and reserves and letters of credit that we utilize. Part of the restriction, though, Mr. Klein, is under the current CDLAC environment many of these affordability restrictions are essentially hard-coded. In this particular case, and I would have to defer to the developer, the 45 and 50 percent levels may very well be set by CDLAC and are out of our control.

I think that in the event of a utility spike--and we can discuss this more fully perhaps in the next project which happens to be in San Diego--we certainly want to make the project viable and we would probably, perhaps, come back to the Board for that. But in some situations the affordability may not be something that we can modify.

MS. PARKER: Mr. Klein, let me make a suggestion given the issue that you have raised. I think you correctly stated that to some extent the dilemma is we are really in kind of a guessing game about knowing what might happen, and it is always difficult to try to have a crystal ball.

What I might suggest at least in the interim, given what Linn just commented on, is perhaps us having a conversation with the new executive director at CDLAC about this item. See how much flexibility there is or whether or not some flexibility is necessary. And in that sense if we were going to try to come up with some sort of a recommendation to the Board or a suggestion, that we could do something that would be broad enough.

It would mean if we have partners with other state entities that need to be involved, that we would have the opportunity to do that. So why not spend some time and have a discussion with Laurie Weir at CDLAC and see what their thoughts are about this. And add, in that sense, the Treasurer's Office, who we are all responding to, either through tax credits or through bond cap, and see what their thoughts would be on it.

MR. KLEIN: I think that's an excellent approach, Terri. But hopefully as we go through projects that are developed in a partnership, as in this case with the City of San Jose, we can ask them to commit at the time we are making loan commitments, to give us the flexibility, if in fact we get the authority, so that we are not then in a position where we do pick up the authority but are locked in with something at the local level that doesn't work.

MR. WARREN: I think the thing to remember, Mr. Klein, is it is not just our problem. It does cut across the entire state, you're absolutely right.

MR. MOZILO: Mr. Chairman.

CHAIRMAN WALLACE: Yes.

MR. MOZILO: Linn, the Wells Fargo loan is for two years?

MR. WARREN: Yes.

MR. MOZILO: And their bonds will be re-funded based upon completion of the project, rent-up and stabilization of occupancy. What happens if those events are not done in two years?

MR. WARREN: What Wells Fargo has done -- The situation would be if CHFA does not make the permanent loan. What Wells Fargo has done is they have structured, basically, 32 year bonds which are re-fundable in two years. In the event that we do not make the permanent loan the bonds that they have purchased will convert to 32 year bonds. They have thought of that, and obviously things can happen, so they have tried to anticipate that problem.

CHAIRMAN WALLACE: Okay, Angelo?

MR. MOZILO: Yes, thank you.

CHAIRMAN WALLACE: Ed.

MR. CZUKER: First I wanted to commend staff and the sponsors for putting together this project. I think it is, obviously, one that was sorely needed by the community. And with the levels of affordability at the 45 to 50 percent levels of affordability, CHFA is fortunate to have the pieces of the puzzle that are here that make this a unique project, one of which being the allocation that has already been received through the City of San Jose, as well as the subordinate debt that is being provided by the City of San Jose, which in effect creates an equity cushion over and above the tax credit cushion that exists that makes CHFA's loan a safer loan than it would otherwise be under normal circumstances.

And the loan to value and loan to cost that we are looking at here for CHFA's exposure is well below the limits that CHFA is willing to do. In fact, we are starting off at a 1.10 debt coverage ratio. So I would personally like to commend the efforts of both the sponsors and staff for putting together what looks to be a very strong application for financing. And the fact that our loan only funds after all the conditions precedent have proven out means that the construction risk is gone. The commercial bank is the one that is taking those risks prior to CHFA ever stepping in and funding its permanent. So I just wanted to voice my support for the project and wait for the appropriate time to sponsor the resolution for approval.

CHAIRMAN WALLACE: That's now.

MR. CZUKER: So moved for approval.

CHAIRMAN WALLACE: Is there a second?

MS. BORNSTEIN: Second.

MS. HAWKINS: I'll second.

CHAIRMAN WALLACE: Julie. Now that's not meant to cut off debate but are there any other questions from the members of the Board? Bob.

MR. KLEIN: I have just one quick question. If I look at the Financing Summary we have a tax exempt first of $9.7 million.

MR. WARREN: Yes.

MR. KLEIN: The City of San Jose loan is taxable?

MR. WARREN: It is their residual receipts. Yes, it would be their funds. They did not sell debt, from my understanding, to do that.

MR. KLEIN: And we tax credit equity of $4,266,000?

MR. WARREN: Yes.

MR. KLEIN: So how is it that we meet the tax exempt bond 50 percent test?

MR. WARREN: The original bond allocation to the City of San Jose was $11.4 million and those bonds will be out there for two years. At that $11.4 million level, that is sufficient during that two year period to qualify for the four percent credits. We will retire $9.7 million of that and the equity will retire the balance of the bonds. But the allocation issue, Mr. Klein, is dealt with, quite simply, by the City during that two year period.

MR. KLEIN: Thank you.

CHAIRMAN WALLACE: Any further questions from the Board or the audience? Hearing and seeing none, secretary, call the roll.

MS. OJIMA: Thank you, Mr. Chairman. Mr. Sherwood?
MR. SHERWOOD: Aye.
MS. OJIMA: Ms. Bornstein?
MS. BORNSTEIN: Aye.
MS. OJIMA: Mr. Czuker?
MR. CZUKER: Aye.
MS. OJIMA: Ms. Easton?
MS. EASTON: Aye.
MS. OJIMA: Ms. Hawkins?
MS. HAWKINS: Aye.
MS. OJIMA: Mr. Klein?
MR. KLEIN: *Aye.*
MS. OJIMA: Mr. Mozilo?
MR. MOZILO: Aye.
MS. OJIMA: Mr. Wallace?
MR. WALLACE: Aye.
MS. OJIMA: Resolution 00-37 has been approved.
CHAIRMAN WALLACE: Resolution 00-37 is hereby approved. Okay, Linn, moving on to Vista Las Flores.

**RESOLUTION 00-38**

MR. WARREN: Thank you, Mr. Chairman. Before we start on Vista Las Flores we have one correction to make. On the resolution page, which is page 854 of your materials, the tax exempt bridge loan should read $1,340,000, not the number that is shown on the resolution.

CHAIRMAN WALLACE: Shoot that to us one more time.

MR. WARREN: Okay. Page --

CHAIRMAN WALLACE: We're on page 854.

MR. WARREN: On page 854. You will see at the bottom of the resolution there is a tax exempt bridge loan section.

CHAIRMAN WALLACE: Right.

MR. WARREN: The loan amount should be $1,340,000. I apologize for that.

CHAIRMAN WALLACE: Just a mere $300,000 discrepancy. Okay, now let's talk about the project.

MR. WARREN: Yes, Mr. Chairman. Vista Las Flores is a 28 unit family project in Carlsbad, California in northern San Diego County. The request before the Board is a first loan mortgage of $1,315,000, a 35 year, fully amortized loan at 6.05 percent. The B loan, which is the tax exempt bridge loan to qualify for the 4 percent credits, is at $1,340,000, 5 years, also at 6.05 percent. This is an inclusionary zoning family housing project, again, in the northern part of San Diego County. Let me take a moment to show you a few pictures.

(Video presentation of project begins.)

This is the site. The subject site is off to the right on Golden Bush Drive. The surrounding area is consistent with single family homes in the $400,000 to

$600,000 range. The prospective site is on the left. Again, the neighborhood. These are recently developed homes adjacent to the project. The entry to the site itself and the pad that is under preparation work.

This is a tax credit project which is across the street, Laurel Tree. This project leased up in 45 days from completion. Another look at the Laurel Tree project. Architecturally, Vista will be somewhat similar to this. An example of the rents in San Diego. Not too dissimilar from the situation that is occurring in San Jose. Rents in San Diego are increasing dramatically. Again we have a wide differential between the 50 and the 60 percent rents in this particular project. This is particularly true in northern San Diego County, particularly in the inclusionary zoning areas in which these rents really are skyrocketing.

(Video presentation of project ends.)

As I said, Vista Las Flores is a 28 unit family project. The other financing that is involved in this is

$135,000, that's the Federal Home Loan Bank affordable housing, and the tax credit equity of $1,432,000 will round out the financing structure.

The sponsors for this particular project are known to us. Actually, half of them are. The first is the Interfaith Housing Foundation. The Agency has not done any transactions with them before but, as your materials indicate, they have had 20 to 30 years experience in building projects in San Diego and they have approximately 750 units that they own and operate.

The second nonprofit is Wakeland Housing. They are a relatively new nonprofit but their principals are known to us. Ken Sauder who is here today worked with the Rgency a couple of years ago on another inclusionary zoning project in Chula Vista which is doing extremely well and Ken has brought his expertise for the development of this particular project. So again we have a very well-designed project in a very desirable area. With that we would like to recommend approval and be happy to answer any questions.

CHAIRMAN WALLACE: Questions from the Board? Questions from the audience? Questions from Mr. Klein? Not necessarily in that order, Bob.

MR. KLEIN: I have a question for you. Again, the tirst mortgage -- It says there's two loan commitments here. $2,655,000 is the total?

MR. WARREN: Yes, for the combined taxes, after that, yes.

MR. KLEIN: When I look at the Project Summary it's got a first mortgage of $1,315,000. And is the concept that you're meeting the 50 percent test by retiring the bridge loan? The bridge loan is going into the calculation to meet the 50 percent test and you're burning that off early.

MR. WARREN: Yes, it is, and it serves two purposes. Number one, to qualify for the four percent credits. And as we do in our bridge loan program, periodically we will stretch that out over five years for the purposes of increasing the equity yield with a staged pay-in. Some sponsors like it, Mr. Klein, some don't. In this particular case there was some incremental increase in the equity pay-in because of the staged pay-in.

MR. KLEIN: Okay. In these cases where we are retiring the multifamily debt very early it would be nice if there were some creative way we could keep that debt out

subject for Mr. Carlson, who is here now.

CHAIRMAN WALLACE: Here comes the cavalry.

MR. CARLSON: We are actually re-using the private activity bond allocation that would otherwise be retired early and we are re-using it, in effect, for the taxable tails that we warehouse. What we have done with our bond issues, as explained, and actually I tried to explain it in the report about the multifamily bond sale, is that we don't amortize the tax exempt debt for a number of years until -- The easiest way to explain this is that as the loans amortize we take those amortizations --

MR. KLEIN: Right.

MR. CARLSON: -- those repayments, and we use it to take out the taxable tails that we are warehousing with our own funds.

MR. KLEIN: So when it discusses amortizing the bridge loan for five years.

MR. CARLSON: Right.

MR. KLEIN: That's only at the project level but not at the indenture level. At the indenture level --

MR. CARLSON: That's right, we are leaving the debt outstanding.

MR. KLEIN: For the full 30 years?

MR. CARLSON: For as long as we can, yes.

MR. KLEIN: Great. I'm glad we have such a creative staff.

CHAIRMAN WALLACE: They have got the answers.

MR. WARREN: I actually had the answer to that question.

CHAIRMAN WALLACE: If you have the questions they've got the answers.

MR. CARLSON: You probably could have explained it better.

MR. WARREN: It was the first time that I was actually going to be able to answer a finance question, but thank you, Ken.

MR. CARLSON: I'll leave now.

CHAIRMAN WALLACE: Linn, you're still in your first 100 days, aren't you?

MR. WARREN: That's right, sir.

CHAIRMAN WALLACE: Okay. Any other questions from the Board? From the audience? Hearing none the Chair will entertain a motion --

MR. KLEIN: Motion to approve.

CHAIRMAN WALLACE: From Mr. Klein.

MS. HAWRINS: I'll second it.

CHAIRMAN WALLACE: And a second by Ms. Hawkins. And is there any discussion on that motion of approval? Hearing, seeing none, secretary, call the roll.

MS. OJIMA: Thank you, Mr. Chairman. Mr. Sherwood?

MR. SHERWOOD: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Aye.

MS. OJIMA: Ms. Easton?

MS. EASTON: Aye.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Mozilo?

MR. MOZILO: Aye.

MS. OJIMA: Mr. Wallace?

MR. WALLACE: Aye.

MS. OJIMA: Resolution 00-38 has been approved.

CHAIRMAN WALLACE: Resolution 00-38 is hereby approved. Bill, we put you in the hot seat your first meeting.

MR. SHERWOOD: I've noticed that.

CHAIRMAN WALLACE: We didn't tell you that was protocol? The first meeting you get the first vote.

MR. SHERWOOD: Evidently for the whole meeting also.

CHAIRMAN WALLACE: We could juggle it a little if you insist.

MR. SHERWOOD: This is fine.

CHAIRMAN WALLACE: Okay. You've been there, done that. I know you have a good background in this. Moving on then, Linn, to the Ambassador Hotel in San Francisco.

RESOLUTION 00-39

# MR. WARREN: Yes. If I could have Kathy. I'm going to have Kathy Weremiuk of *my* staff to join me for a couple of minutes and give us some additional background on this project. Kathy, by way of background, is the program manager for our special needs program. She works in our L.A. office.

The Ambassador Hotel is a loan to lender program. The Board may recall from its last meeting that we made a similar loan for a project in the Tenderloin for Eighth and Natoma. In that particular case the bank that we were working with was Union Bank. This is a similar structure. In this case we are loaning money to Wells Fargo Bank in the amount of $11,500,000 over a two year period at an interest rate of 3 percent.

In your materials at the bottom of page 858 there is a comment with respect to a letter of credit, which is one of the security devices that we probably might want to use under this program. We have since revisited that and we have Secided that a straight obligation to pay from the commercial sank with an acceptable rating achieves the same purpose as generating a separate letter of credit. So in this ?articular case Wells Fargo, which is rated double-A minus, is an acceptable rating for the Agency and our loan to lender then, Linn, to the Ambassador Hotel in San Francisco.

RESOLUTION 00-39

MR. WARREN: Yes. If I could have Kathy. I'm going to have Kathy Weremiuk of my staff to join me for a couple of minutes and give us some additional background on this project. Kathy, by way of background, is the program manager for our special needs program. She works in our L.A. office.

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The reason that we are doing these types of loans, particularly in special needs, is that we are supplying a lower cost of construction capital for the project. Part of our requirements are the cost savings are then passed through for the benefit of the project. And again, we will have no long-term debt on the Ambassador. It will be, basically, taken out by the equity pay-in for the nine percent credits which they have already received during the two year period.

So with that I am going to ask Kathy to comment on the Ambassador itself and a little bit about the special needs program and the sponsors. I will operate the mouse for you.

(Video presentation of project begins.)

MS. WEREMIUK: The Ambassador is a 147 unit building with a 10,000 square foot parking structure attached to it. It's going to be converted to 134 units of mini-studios, SRO rooms, and in the interior on top of the parking garage they are going to put in a 4,500 square foot surface facility and a public area of 5,000 square feet of deck space Cor the residents to use. The ground floor retail, some of that will be converted to--1 believe on this side--to an enhanced lobby area. Three of the ground floor spaces will continue to be leased to neighborhood-serving retail. There's a small market, there's a pizza parlor and a restaurant on the ground floor; they have long-term leases.

The facility when it's done, the City -- There is no doubt that it's going to be -- the retail and the parking structure, which is commercially leased. The income, which is $200,000 a year minus whatever vacancy loss they have, will be available to fund the special needs in the service program. It will be self-funding for the hotel.

The Ambassador has a long history in San Francisco and it's very prominent. In the eighties through '95 it was an AIDS hospice and AIDS hotel operated by a private individual, but with very strong community mobilization to provide services for people who were living in the Ambassador. It was, in fact, the subject of a national television documentary about the AIDS crisis in San Francisco.

In '95 the person who ran the Ambassador lost their lease and it fell into disrepair. It's currently partially occupied. TNDC took it over in '99 and put together a rehabilitation program for it with the assistance of about $6 million from the City of San Francisco as well as nine percent tax credits.

The service component, the hotel, is going to serve a population of people who have a history of mental illness, substance abuse or AIDS. And 73 of the units will be specifically designated for people who are diagnosed, who come in as diagnosed with those ailments. The remainder of the units will be for people who are renting SRO units. But the population will, in fact, from TNDC's history, they will serve a 100 percent special needs population of people, mainly with mental illness.

The service program is going to include a staff of somewhere between six and seven people on site that will include crisis management, assistance with medical care, mental health services, job training, pre-job placement. It is a very comprehensive program to assist people in the facility and also to get them into services outside of the facility.

This is being done through a coalition with Baker Places, which does mental health and substance abuse counseling; the Black Coalition on AIDS; the Conard House, which does money management; and the San Francisco Network Ministries and TNDC. TNDC is a *very* strong grassroots organization in the Tenderloin area. This is our special needs loan with them. You may remember that last year we committed to a loan for a facility for emancipating foster youth.

TNDC has been in existence for 17 years. They do not only housing but after-school programs and job training and storefront enrichment for people who live in and merchants in the Tenderloin neighborhood. But they have been focused on housing because that need in San Francisco is so intense. Currently they operate 15 buildings with over 1,000 units. Most of those are SRO but they are not all SRO, they do some family housing, and all of their facilities are service-enriched. They have recently gotten a $1 million grant, and this is just to speak to their roots in the community, from the St. Andrew Foundation, to assist them with housing Sevelopment because that is such a critical need. We are very pleased to be working with them on this project.

(Video presentation of project ends.)

MR. WARREN: Thank you, Kathy. With that we would Like to recommend approval and be happy to answer any questions.

CHAIRMAN WALLACE: Mr. Czuker.

MR. CZUKER: Can you explain to us the conditions for funding the equity of the tax credits, which will be your primary source of repayment? And secondarily, since you are not getting a letter of credit, what are your rights of enforcement to Wells Fargo, or whoever the bank is, to truly collect on your exposure?

MR. WARREN: The equity will be paid in toward the end of the project and will serve to retire the debt that we have outstanding to Wells Fargo. The language that are drafting, basically, is full recourse language back to Wells Fargo for an obligation to pay. And again, we looked at this, Mr. Czuker, from the standpoint that the letter of credit that we were asking for would have been drawn off of Wells Fargo itself so we felt that it was appropriate to look to them without securing the letter of credit for that particular obligation to pay.

MR. CZUKER: Specifically, the terms of funding on the tax credit equity are tied to what condition?

MR. WARREN: It is tied to completion. The funding from the CHFA funds will be phased upon a draw request basis so that we don't fund the full amount up front. It will be on a request basis, which we will advance. And the tax credit investor would probably fund--and I believe that's the case here--on a completion basis.

MS. WEREMIUK: And occupancy.

MR. WARREN: And occupancy.

CHAIRMAN WALLACE: Mr. Mozilo.

MR. MOZILO: Could you increase the volume on his mike, please, I'm having a problem hearing him.

MR. WARREN: I'll try to speak up, Mr. Mozilo.

MR. MOZILO: Thanks. Now you can increase the volume. Can you just explain to me the reason for using Wells Fargo as the intermediary on this construction loan.

Why is it done in this Rube Goldberg way?

MR. WARREN: They were the original construction lender on the project and they were going to make a conventional loan with a, basically, prime, prime-plus-one. We have done business with TNDC before. We sat down with TNDC and Wells Fargo and we proposed this structure. We said we felt that we can effect a pass-through of interest rate cost savings for the project if we are your source of capital. Wells is a source of capital on the deposits and there's approximately a 200 or 300 basis point difference in their cost of funds.

MR. MOZILO: Right.

MR. WARREN: So that's why it is somewhat convoluted. But on the other hand we felt that this served our special needs goal and we tried to make it financially neutral for Wells Fargo. In other words, their fees and spreads would be identical. Only the fees they stacked on top of the cost of funds would be our cost of funds versus the traditional cost of funds.

MR. MOZILO: They are going to manage the construction lending aspect of it. Is that the issue?

MR. WARREN: That's the issue.

MR. MOZILO: Okay.

MR. WARREN: Yes.

MR. MOZILO: Okay, thanks.

MR. WARREN: That is where their role is no different. And we would not certainly expect them to, and they have liability to do it correctly.

MR. MOZILO: Thank you.

CHAIRMAN WALLACE: Ed, was that your --

MR. CZUKER: I was just going to clarify that they were being used solely as the construction administration for services and they were looking for someone to fill that role.

CHAIRMAN WALLACE: Any further questions? Carrie.

MS. HAWKINS: A comment and a question. I think this financing is clear and well-structured.

CHAIRMAN WALLACE: Carrie, get a little closer to the mike.

MS. HAWKINS: But I have a question. It says, 23 of the units will be reserved for HIV residents and an additional 50 would be for mentally ill or substance abuse issues or living with HIV. So how does that break out if there is a designated 23 for HIV?

MS. WEREMIUK: Carrie, that can overlap.

MS. HAWKINS: Okay.

MS. WEREMIUK: The 50 that are designated are shelter-plus-care and TNDC is required to take those residents from the City's shelter-plus-care list. That list may or may not have people with HIV/AIDS. To the extent that those residents don't have HIV/AIDS and they qualify and they are leased units then TNDC would have an obligation to lease an additional 23 units to people with HIV/AIDS. It may be 73 people, it may be 50 people, depending on who comes to the building from the shelter-plus-care list. But in reality the population, whether it's the 50, the 73 or the 134, it's all going to have the same disability criteria in terms of who is the case population.

MS. HAWKINS: I commend you on putting this together because I think where in the private sector and the public sector we fail, is to address the mentally ill. And we all see them out on the streets with the grocery carts year after year, the same people. I think the more you can bring these projects to us for these special needs I think it's way overdue. I commend you and I'm ready to make a motion to approve it when you're ready, Mr. Wallace.

CHAIRMAN WALLACE: You just did.

MS. HAWKINS: Okay.

CHAIRMAN WALLACE: Is there a second?

MR. KLEIN: Second.

CHAIRMAN WALLACE: Mr. Klein. Any further --

MR. MOZILO: I have one more question.

CHAIRMAN WALLACE: Angelo.

MR. MOZILO: Linn, let me ask you this question.

MR. WARREN: Yes.

MR. MOZILO: On the Wells Fargo arrangement. Is

Wells Fargo charging any kind of a fee for doing that or is the offset the CRA benefit that'they get?

MR. WARREN: They are charging the normal and customary loan fees. The basis point increase is approximately 200 to 250 basis points, plus a point on top of that are their fees. And they are getting CRA credit on top of that.

MR. MOZILO: Thank you.

CHAIRMAN WALLACE: Ed.

MR. CZUKER: One quick question which relates. I also, obviously, concur with Carrie in commending the public benefit of this project. Isn't there also an opportunity for AMPS to get historic tax credits here, given the age of the structure?

MR. WARREN: That's not something that we -- That could very well be, Mr. Czuker, I don't know the answer to that. But that could be a component of it.

CHAIRMAN WALLACE: But Kathy may.

MR. WARREN: Kathy may.

MS. WEREMIUK: TNDC reviewed this and it didn't pencil out for them in tenns of going for historic credits.

CHAIRMAN WALLACE: Any further questions? Board? Audience? Hearing and seeing none, secretary, call the roll.

MS. OJIMA: Thank you. Mr. Sherwood?

MR. SHERWOOD: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Aye.

MS. OJIMA: Ms. Easton?

MS. EASTON: Aye.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Mozilo?

MR. MOZILO: Aye.

MS. OJIMA: Mr. Wallace?

MR. WALLACE: Aye.

MS. OJIMA: Resolution 00-39 has been approved.

CHAIRMAN WALLACE: Resolution 00-39 is hereby approved. Ms. Hawkins will chair the next item.

MR. KLEIN: Mr. Chairman, this is a taxable loan and perhaps the Agency has more flexibility than it would have if constrained by CDLAC to create some room in its regulatory agreement, although I realize we have a TCAC regulatory here. But, again, these projects are extraordinarily difficult to put together. My compliments to the staff and the sponsors for a remarkable product here. I'm still concerned with the energy impact on projects like this. If we can create some room up front in these documents so we don't have an inadvertent default that would be great.

CHAIRMAN WALLACE: With your energy, Bob, how can we go wrong. No, good point, and I know Terri is going to be looking at that.

MR. KLEIN: Okay.

CHAIRMAN WALLACE: Carrie.

RESOLUTION 00-40

MS. HAWRINS: Okay, let's proceed with the next item on the agenda which is Padre Apartments.

MR. WARREN: Thank you, Ms. Hawkins. This is a CHFA portfolio loan that is part of our Section 8 portfolio and there are a number of issues on this regarding the background of the CHFA portfolio. I'd like to just show you the project very quickly and then go into a discussion of this type of loan and why we brought it to you today. So very quickly I'd like to go through and show the Padre.

(Video presentation of project begins.)

The Padre Apartments is also in the Tenderloin and not too far, about two or three blocks away from the Ambassador Apartments. It's a 41 unit project. Forty of the units are one-bedrooms, the forty-first unit is a two-bedroom manager's unit. It's a seven story building. This is on Jones Street in the City; originally constructed in 1928. It was rehabilitated in 1981, which is when the CHFA financing first went on. On the ground floor there are four handicapped units.

The planned rehabilitation for Padre will include painting the exterior. There is a built-up roof that will need to be replaced and repaired. All the units will receive new appliances and counter tops and the units will also receive new carpet. This is typical of the hallways, somewhat dark. There will be upgraded lighting and carpet within the project. As you can see from the picture, this is fairly typical of the smaller, multi-unit projects in the Tenderloin.

(Video presentation of project ends.)

By way of background: The Agency has approximately 150 Section 8 loans in its portfolio and they basically fall into three categories. The first are what we call mismatches, which is where the HAP contract or the Section 8 contract expires prior to the loan itself amortizing itself down. The reason that we were involved in these approximately 20 years ago is there are a number of Section 8 contracts that existed but there was no permanent financing to match them up with.

So CHFA was asked to become involved during this period of time to provide financing, but to make the projects work financially it required a loan term longer than the 20 year contracts. Hence, we have these mismatches. One of the components of these mismatches is that after the Section 8 contract does expire the affordability requirements on the regulatory agreement are somewhat limited. Not nearly as deep or restrictive as we do now.

Earlier this year the Board approved the O'Farrell project, which was a Section 8 mismatch within the CHFA portfolio. We did this financing in conjunction with the City of San Francisco and we extended the affordability for approximately 20 to 25 more years. So that was an example of where we refinanced one of our own projects to increase and expand the affordability.

The second component of our Section 8 portfolio are the 30 year loans. These are where the actual HAP contract is equal to the loan term and they are both for 30 years. After the contract expires and the loan is paid off then the project is free to set the rents at whatever level they wish, subject to notices, obviously, as imposed by HUD.

Earlier this year also the Board approved the Tice Oaks project, which was a refinancing of a 30 year transaction. In that particular transaction to make the project work, it required bonds and credits as well as financial contributions from the City of Walnut Creek. Regrettably, that project was not able to get allocation in this calendar year and will seek allocation next year. But for those types of transactions, to make them work, it became evident that bond allocation would be required as one of the financial sources.

This brings us to the third category which are the 40 years, of which Padre is one, in which the Section 8 contract and the loan are for 40 years. We have some concerns, and I think good and valid reasons, to examine these portfolios if you subscribe to the fact that most of these loans after 20 years need some form of recapitalization or refinancing. In spite of the best efforts of the Agency and the sponsors these projects do get tired. Particularly projects, as you can see from the Padre, were built back in the late twenties.

So our primary concern has to do with the tenants on the long-term. By refinancing the Padre we accomplish a number of things. In this particular transaction we are asking that Mercy Housing, who is the proposed sponsor, not only regulate the property for the remaining 20 years of the Section 8 contract on which our debt is based but to have affordability for 20 more years past that point in time at 50 percent of median or less. The projects do require some degree of rehabilitation, and in the case of Padre, we are looking at a rehab budget of approximately $15,000 per unit.

We are also encouraged with this project in that it would be transferred into Mercy Housing. Mercy is a well-known affordable housing provider throughout California, actually throughout the Western United States. But more particularly, they have a large concentration of senior projects in the Tenderloin. There are two other projects that are directly adjacent to Padre and a third, which is a HUD 202 project which is a HUD senior financing program, called Preservation, which will be the focus and kind of the nucleus for services for Mercy for seniors throughout all the Tenderloin. So in this particular budget what Mercy has requested and the Agency has agreed is that a service coordinator be funded as part of the operating budget.

I bring all this up in the context *of* this portfolio. The Agency will be bringing to the Board in the spring of next year, of 2001, a plan or an analysis of how we wish to deal with this Section 8 portfolio. We are reaching the 20 year milestone for all these projects and we need to make decisions, clearly in the cases of the mismatches in which the tenants could be at risk. But long-term, how do we wish to rehabilitate these properties and how do we deal with potential for rents being increased for the tenants.

So we are looking at these transactions as we have with O'Farrell and with Tice on a case by case basis but with an eye toward coming up and developing a policy that we can apply for all 150 projects on a long-term basis. So that, by way of background, is why Padre is with us. We think this is appropriate to do it today because the City of San Francisco is making a contribution. The sales price for this particular transaction is low compared to sales prices in San Francisco and it gives us the ability to leverage the rest of the Section 8 contract for 21 years.

So the request in front of you today is for a first loan with 501(c)(3) financing in the amount of $3,285,000, 7.25 interest rate, 21 years fully amortized. Again, based upon the existing Section 8 contract level. And this would be 501(c)(3) financing. The benefit of using the 501(c)(3) at this juncture is we don't have to require activity bond allocation, which could be the financial project at risk. So with that, and that's a lot to digest regarding this one project, but I would like to recommend approval and be happy to go through any questions that you may have.

MS. HAWKINS: Okay. Any questions? Yes, Mr. Klein.

MR. KLEIN: In this case we are paying off a tax-exempt loan.

MR. WARREN: Yes. It is a taxable loan, actually. It's a taxable loan, I'm sorry, Mr. Klein.

MR. KLEIN: Oh, it's a taxable mortgage on this project?

MR. WARREN: Yes, it is.

MR. KLEIN: In the other portfolio cases you were going to bring to us a proposal on financing . Do a number of those have tax-exempt loans?

(Ms. Lupita Ochoa entered the meeting room.)

MR. WARREN: I'm going to say the Section 8's are all taxable.

MR. KLEIN: They are all taxable?

MR. WARREN: Yes.

MR. KLEIN: Okay. I have no further questions.

MS. HAWKINS: Okay, any other questions from the floor? Okay. Seeing none, hearing none -- Oh, Ms. Bornstein.

MS. BORNSTEIN: I was going to move approval.

MS. HAWKINS: Thank you. Ms. Bornstein has moved. Is there a second?

MR. SHERWOOD: Second.

MS. HAWKINS: And Mr. Sherwood has seconded. Any other comments or questions or discussion? Hearing none may we have the roll.

MS. OJIMA: Thank you, Ms. Vice Chair. Mr. Sherwood?

MR. SHERWOOD: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Aye.

MS. OJIMA: Ms. Easton?

MS. EASTON: Aye.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Mozilo?

MR. MOZILO: Aye.

MS. OJIMA: Mr. Wallace?

MR. WALLACE: Aye.

MS. OJIMA: Resolution 00-40 has been approved.

MS. HAWKINS: And with that I turn the chair back to Mr. Wallace.

CHAIRMAN WALLACE: Thank you. And welcome, Lupita. We have got a full house here today, you guys, it must be the holiday season. Okay, moving on, Linn, to Item 5.

RESOLUTION 00-41

MR. WARREN: Thank you, Mr. Chairman. Our last loan for your consideration today is a loan increase request. This is the Britton Street Family Housing project. This loan was approved about three years ago by the Board. The permanent loan has closed on this loan in the amount of approximately $5,100,000. What you see in your request today is an increase to provide a one year bridge loan up to the higher amount for the purposes of qualifying for the four percent credits. I believe the increase is approximately $100,000.

(Mr. Edward Czuker exited the
meeting room.)

The Britton Street project was replacement housing for the Geneva Towers which was in South San Francisco. As I said, the project is complete and it is fully leased. But our goal here today is to receive approval for the increased bridge loan to qualify it for four percent credits. The amount that is requested, the total amount of $5,175,000 is in excess of the seven percent approval limit that we have for increasing loans. So, as I said, we have funded the permanent loan but less than the seven percent approval limits. We would ask approval from the Board to fund us the full amount, which is basically an advance of approximately $100,000 to qualify for the credits. So with that we would ask for your approval and be happy to answer any questions.

CHAIRMAN WALLACE: Linn, would you repeat that.

MR. WARREN: I'd be pleased to, Mr. Chairman.

CHAIRMAN WALLACE: Ramona, play back the record. No. I'm sorry, Terri was giving me some food for thought.

MS. PARKER: I apologize.

CHAIRMAN WALLACE: Are there questions from the Board Members? Yes, Bob.

MR. KLEIN: Is the increase here in tax-exempt debt?

MR. WARREN: Yes, it Is.

MR. KLEIN: In order to meet the 50 percent test?

MR. WARREN: Yes.

MR. KLEIN: Okay. First of all, I obviously would be supportive. I would like to say, on these tax credit transactions if the staff could bring us tax credit yields based upon the actual pay-in. It's the only way we could know whether these projects are getting the benefit of the best market rates on tax credit transactions. Otherwise we have no benchmarks to compare against. You need to tell us what the convention is they are using, either it assumes all money in up front or a staged pay-in. I assume that the yield will be on a staged pay-in assumption. But that would be extremely helpful and give us an effective way to evaluate what we are looking at.

MR. WARREN: In this particular situation, Mr. Klein, the reason we are back for the increase is because the project ran into significant cost overruns with the sponsor. I'm glad you brought that up. I wanted to mention and compliment Mercy Housing who came in as a co-general partner and construction manager midway through construction and brought this project to completion. So we are very pleased that they are involved. But the reason we did have to ask for the increase is because of the cost overruns.

MR. KLEIN: And I absolutely am supportive. That's going to happen and we need to be there and be supportive of our sponsors.

MR. WARREN: Okay.

CHAIRMAN WALLACE: No problem, Linn?

MR. WARREN: No, sir.

CHAIRMAN WALLACE: That's good. Any further questions on this loan modification from the Board or the audience? Hearing and seeing none we are going to twiddle thumbs for a few moments until JoJo gets back. Can we call the roll?

MS. PARKER: Mr. Chairman, on Resolution 00-41 I will call the roll. Mr. Sherwood?

MR. SHERWOOD: Aye.

MS. PARKER: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. PARKER: Mr. Czuker?

(No response).

MS. PARKER: Ms. Easton?

MS. EASTON: Aye.

MS. PARKER: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. PARKER: Mr. Klein?

MR. KLEIN: Aye.

MS. PARKER: Mr. Mozilo?

MR. MOZILO: Aye.
MS. PARKER: Mr. Wallace?
CHAIRMAN WALLACE: Aye.
MS. PARKER: Mr. Chairman, Resolution --
CHAIRMAN WALLACE: What about Lupita?
MS. PARKER: Lupita doesn't get to vote.
MS. OCHOA: I'm not a voting member.
CHAIRMAN WALLACE: Are you sure?
MS. PARKER: Mr. Chairman --
CHAIRMAN WALLACE: I know.. It's unfair.
MS. PARKER: Resolution 00-41 has been approved.
CHAIRMAN WALLACE: Can we have a recount? That seems to be the thing to do these days.
MS. PARKER: We have seven affirmed votes here, we're in good stead.
CHAIRMAN WALLACE: Any dimples?
MS. PARKER: No chads.
CHAIRMAN WALLACE: Okay.
MR. KLEIN: Have you been in Florida, Mr. Chairman?
CHAIRMAN WALLACE: Pardon?
MR. KLEIN: Have you been in Florida recently?
CHAIRMAN WALLACE: No, far from it, thank you, but I followed that with interest. Okay, Resolution 00-41 has been approved. Item 6. Dick are you going to present that to us? Mr. LaVergne.

RESOLUTION 00-42

MR. LaVERGNE: Good morning, Mr. Chairman and members of the committee. I'm here to present Resolution 00-42; it begins on page 906 of your Board binder. With me is Greg Carter who is manager of the Agency's School Facilities Down Payment Assistance programs. Those programs are part of four programs that were approved by the Board implementing the state's SB-50 and Prop 1A school facility fee down payment assistance and rental programs. Those are four programs, and by way of background I'll just bring you up to date on 'those programs.

The three down payment assistance programs provided assistance under the first program for economically distressed counties, of which we serve 12. The second program provides down payment assistance for homes with a maximum sales price of $130,000 but there are no income limits and the borrower need not be a first time home buyer. And the third program is the first time home buyer's program and that is to moderate income home buyers. Moderate income in this case is 120 percent of median income and that income is adjusted by family size. The fourth program under the school facility fee housing programs is a rental assistance program. That program provides 100 percent reimbursement for the school facility fees paid by developers for apartment houses in which very-low income units are set aside in accordance with the Proposition 1A legislation.

We are here before you today to implement a marketing program and to obtain approval for the Director to enter into contracts for that program. The marketing services were requested in a Request For Services on October 30. The programs have approximately $2 million of the $160 million appropriated for the programs available for marketing. The marketing services would cover such items as public relations, events, articles, advertising production, media buying, marketing, public service and public/private partnerships with developers and the lending industry.

Under current regulation the Director is limited to entering into contracts up to $500,000. Since this is a $2 million program and proposals over the two year period for the program may exceed $500,000 we are requesting approval to allow the Director to enter into contracts that would exceed $500,000 but would not exceed the $2 million that is available for the marketing efforts. We are recommending approval of Resolution 00-42.

CHAIRMAN WALLACE: There were some interruptions, Dick. We need an outside marketer to help us with a variety of our marketing programs?

(Mr. Edward Czuker re-entered the meeting room.)

MR. LaVERGNE: That's correct. We do not have the expertise in-house.

CHAIRMAN WALLACE: Right. So this is a Resolution, if we approve it, do we trust Terri Parker. (Laughter).

MR. LaVERGNE: She's out of the room so feel free to speak your mind.

CHAIRMAN WALLACE: Dick, you only think she's out of the room. She's behind you all the way, Dick.

MR. MOZILO: What is the core goal of the marketing effort? What is the point? To promote CHFA?

MR. LaVERGNE: The goals are for all four programs. They are statewide programs. Right now we have difficulty reaching the potential marketplace. It's a broad, wide-ranging marketplace. What we have done is sent out what is called a Request For Proposal, which is in essence an outlining of services available to help us reach those marketplaces. As a part of .that contract request firms will come back to the Agency and describe how they would help us meet the goal of providing this assistance to economically distressed first time home buyers and so on.

MR. MOZILO: But aren't lenders the ultimate beneficiary of this? If you are making a no down payment or you are helping with the down payment the balance of the loan is being made by a lender, right?

MR. LaVERGNE: The lenders would certainly benefit. However, the primary beneficiary is the borrower who will have the benefit of the down payment assistance. As long as the borrower stays in the property on the down payment assistance side for five years it is not paid back.

MR. MOZILO: I understand. But it seems to me that you could leverage off of the lender community for them to go out and do this marketing. Because, again, they benefit ultimately. I know the borrower benefits but the lender also. It increases the opportunity for the lender to make more loans. Why wouldn't you utilize the lenders to do this?

MR. LaVERGNE: And that is part of the request for services from the marketing industry on how to cooperatively join in programs with the lenders and with developers.

MS. HAWKINS: I also have a question because it would seem to me it would be so beneficial to the lenders. If you marketed it to your lender group as you meet with them they wouldn't carry it out without having to market it additionally? Have you tried that or talked to them?

MR. LaVERGNE: We have worked with lenders on a number of marketing efforts. But what is impacting us here is that we have a two year time frame before the program sunsets. As a result of that, working with the lenders and so on, we need assistance. We don't have people in-house, civil service employees to be able to do that.

MR. MOZILO: I have a real problem understanding. Going to the consumer--we deal with consumers--it's very expensive. This is not an impulse item where you say, we're going to assist you, and then they go out and buy a house as a result of that. There have to be a lot of other things that happen for them to do that. And I'm just questioning the value of going out and spending this kind of money to go to the consumers to promote the program. Because we have not found this type of thing to be efficient, going to consumers.

CHAIRMAN WALLACE: Is that the ultimate goal of the RFP or is it to go through the lender or to help the lender or to promote this program really heavily through the lender?

MR. LaVERGNE: As I mentioned, the ultimate beneficiary is the borrower.

CHAIRMAN WALLACE: Sure.

MR. LaVERGNE: However, the type of programs that would be put out would be put out in concert with the lenders to promote the program with the lenders. Brochures, advertising spots, etcetera and to join in partnership with them to promote the program. They are very discrete programs. They have been, since we implemented the programs, as Mr. Mozilo has pointed out, difficult to market.

CHAIRMAN WALLACE: *Any* further questions? Yes, Bill.

MR. SHERWOOD: Yes, Mr. Chair. Being a newcomer here today maybe you could just educate me a little bit on the program. It was evidently passed, authorized, in '98.

What has the success been up to this point?

MR. CARTER: As far as our production levels, in the two year period up until now we have processed about 1200 of these loans for around about $3 million.

MR. SHERWOOD: For how much? I'm sorry.

MR. CARTER: $3 million.

MR. SHERWOOD: $3 million. And you have $160 million that has been appropriated through the Legislature, evidently through December 31, 2002.

MR. CARTER: That is correct.

MS. PARKER: Bill, let me add a couple of caveats. The first dilemma about this was although it was effective upon passage of the Proposition -- The dilemma was that we needed the school districts to essentially come into compliance and the majority of school districts didn't come into compliance until the end of that first calendar year. That caused a problem.

The second problem was we found out that, frankly, the income limits that we had were too low for anybody to qualify for any product that was out there. That's why we came in in the spring and sought a legislative change. Which the Legislature was very responsive to in a very quick period of time, allowing us to make some changes.

So we really think that this is the point in time when we have got what we can describe as the best viability to a program, and in that sense, want to try to go out and do a marketing campaign based on some of these revisions of what we now know. We have raised the income limits. We also got an escalating factor into the property, the amount of property value for the house that could be sold, that wasn't included in the original legislation. They had a limit on the sales price of a home with a program that was not going to be implemented for all intents and purposes for another 18 months and then run for four years and there was no escalation factor. Given California's economy, obviously, that was kind of a mistake. So we think we are in a better position.

And perhaps to address Mr. Mozilo's comments: We believe that because of the uniqueness of this program that we need specific marketing expertise to help us design a program. We originally thought that because the builders had pursued this piece of legislation to want this compensation that they would be more involved in, frankly, marketing and helping their buyers utilize this. That really hasn't happened. But we want to develop a marketing strategy that uses every marketing method available to us to be able to use these general fund dollars. That's what we are going to be relying on the expertise of a good marketing firm to help us develop that strategy.

MR. SHERWOOD: Thank you, Terri, that clarifies some of the issues for me.

CHAIRMAN WALLACE: Stand by just a moment, Julie. Angelo, she is now trying to address your concerns and I don't want to --

MR. MOZILO: I understand the frustration. I understand you have money, you have got a program that appears'to be a very good program that could help people who need help. You have money allocated and you have a sunset provision. The $3 million is very little over the two year period, frankly, to get there. I understand that frustration. I'm just concerned as to --

Maybe provide some input as to how you direct your efforts. If you direct your efforts towards the lenders. So for example, it doesn't cost a lot of money to have a symposium for your major lenders in the state to tell them how this thing works. Because I'm assuming that it is not a complicated program. I don't understand why builders are resistant to it or have not grabbed on to this because lenders and builders will try to grab any program that will help them increase their business. So is there something fundamental about this program that makes it difficult to execute, difficult to participate in? Is it an administratively difficult program?

MR. CARTER: It is not administratively difficult, I think it is reaching out. We have conducted approximately

48 workshops, as you describe, where we go directly out into the communities. We involved the builder community, we involved the lender community, the real estate community, the local government housing people as well as some nonprofit organizations to, one, to have them understand the program and then secondly, for them to take this to the buying public. So we have attempted those things. We have probably talked to over 1500 people in the industry, so to speak. The majority of those have in fact been lenders so it's an avenue that we have taken in doing that in these symposiums, what we call *workshops.*

MR. MOZILO: What is your feedback? Is your feedback that, look, this program is irrelevant because the income requirements are too restrictive, the loan amounts are too restrictive? What is the --

MR. CARTER: Initially those were the feedbacks, and as Terri Parker had mentioned, we had gone back for legislative change. Since the legislative change that increased income limits and also increased sales prices in some programs it has been more receptive. Bearing in mind this is for new construction homes only and not all lenders, not many lenders, get involved in new construction financing.

MR. MOZILO: Right.

MR. CARTER: That is traditionally done with mortgage companies attached to the builders. So we find that our audience for a builder-directed focus program is pretty limited.

MR. LaVERGNE: There is one aspect of the program that does make it difficult and moves it beyond just lender underwriting and involvement. That is, that the amount of down payment assistance is based on a proportionate amount of the school fees paid by the developer. So every developer has to calculate out separately the amount of school fees that are paid and the proportionate allocation to each individual home affected.

MR. MOZILO: I see.

CHAIRMAN WALLACE: It is not all that simple.

MR. LaVERGNE: It's administratively --

CHAIRMAN WALLACE: When you presented it to us --

MR. LaVERGNE: We made it as administratively simple as we can, but the statute has complications to it.

CHAIRMAN WALLACE: You bet.

MR. LaVERGNE: It doesn't make it just a simple straightforward three percent or five percent down payment assistance program.

CHAIRMAN WALLACE: That's right.

MS. PARKER: But I think there may also be a factor. If you look at just the data that we have of how our single family loan program is going we have seen an inching up, which we have talked with the Board, of more and more people who qualify for CHFA loans are doing resale. Because the concern is that perhaps new construction, new product, is prohibitive in the cost factor for the income groups that we serve. So to the extent that people who are essentially getting loans that would be in the incomes that we are serving, there may not be -- Those people may not be able to qualify for what is being built today, given the price range.

CHAIRMAN WALLACE: Let me suggest the issue. Angelo has voiced some -- This may not be resolvable in a PR context. And that is a legitimate concern. But what you are asking us for -- It's not $3 million, Angelo, it's $2 million. And it's no piece of cake to do this. You are asking us here to give you the authority to contract. Is there any reason you can't pass that by us? Your RFP is out as we speak, is it not?

MS. PARKER: That's correct.

CHAIRMAN WALLACE: Is there any reason you can't pass that by us at our January 11 meeting? So that we get a little feeling that we are really putting good money after good. Is that a problem, though, Terri? I have forgotten you.

MS. BORNSTEIN: And my comment might shed some light on your question, Mr. Chairman.

CHAIRMAN WALLACE: Please. I'm sorry, Julie.

MS. BORNSTEIN: This program is different from everything else we do in that it was an appropriation from the Legislature, which grew out of the legislative negotiations over the school bonds of 1998. So if this money isn't spent it can't be used somewhere else. The program was originally designed in 1998 to sunset in the year 2002. It was probably thought at the time, four years was enough.

But now we are two years down the line. There were some difficulties in the statute that presented problems, as the staff has indicated. Those were corrected in this budget act that was passed in July so here we are now, two years into it. The statutory changes to raise the income levels and price levels have been changed but we are in a situation with a fairly complicated program, as Dick has said, that deals with individual calculations based on proportions of school fees. And if the money isn't spent by the year 2002 it's lost forever. And it could, I think, carry out the original general legislative intent of assisting people who otherwise could not be homeowners to become homeowners because in addition to all other programs that are available this would then provide additional reductions based on the school fees paid.

I would make those comments to indicate that given the validity of all the comments that have been made by my colleagues here on the Board, and certainly I understand those concerns. In this particular case there is a need to respond back to the Legislature and to the control agencies at the Administration as to how a general fund appropriation is spent.

I think it would be difficult for the Agency to go back at the end of this year, because it will be monitored, and say, well, we haven't tried hiring an outside marketing firm, we have continued to rely on our traditional methods. And even with the statutory changes, using our state employees who are geared more towards our long-term ongoing programs, we were not able to increase our production more than whatever we increased it.

I think the opportunity lost of not hiring that outside expertise for what is clearly a unique program and a short-term one-time program, would be difficult then to explain to those folks who watch the taxpayers' money. Did we ever meet the statutory intent of this program. So I don't know if those comments help but that's one reason I would support going outside for the marketing services, which is somewhat extraneous to the actual motion which is to delegate authority to the Executive Director.

CHAIRMAN WALLACE: Right.

(Tape 1 was changed to tape 2.)

MS. PARKER: Mr. Chairman, perhaps what I could do, to answer your question directly, is we typically give the Board a midyear update of where we are in our programs. I think at that point in time we would be in a position of being able to let you know what we have done as far as the extent that we, at that point in time, have a strategy. As part of it we could talk about that. But we can come back and let the Board know. If it's then or sometime at a later date when we do know it, what we are doing is a strategy to try to make a demonstrated impact on utilizing these very valuable state resources.

CHAIRMAN WALLACE: Terri, when is your RFP deadline? When is it due?

MS. PARKER: Today it's due.

CHAIRMAN WALLACE: Today. Do we lose a lot by having you come to the January 11, a month from now, meeting and saying -- Or do you have to let that contract, actually sign that contract before then?

MS. PARKER: Well, I think what we were trying to accomplish by bringing this to you here --

CHAIRMAN WALLACE: I know time is of the essence.

MS. PARKER: -- is to be able to have the authority to do that so that -- Because what we are getting in-house, we are going to be involved in reviewing and making a selection to the extent that we have the authority to actually negotiate and sign the contract. We can then have work commence and begin.

MS. HAWKINS: I have a question, Mr. Chairman.

CHAIRMAN WALLACE: Carrie.

MS. HAWKINS: Have you had the workshops since you got the increases, the legislative increases in sales price and income limits?

MR. CARTER: Yes, those increases came in July of this year. The workshops have not ceased, they have continued. In fact they have been expanded from that point forward because we have had certainly more to talk about.

MS. HAWKINS: And are you convinced that there is a product out there? Is there a house that could be purchased within these -- Is there a product? Because my concern is the same as Angelo's. Usually if you have a product that's workable, the lenders and the realtors and the developers will use a product that is workable. Therefore I have to -- I will support your decision that you have got all the information you need in order to say, by marketing this, that is the glitch. But there is a produce out there that is receptive if we can just get the information out. But sometimes no matter how much you market something, it will not go if it isn't workable.

CHAIRMAN WALLACE: Yes, Bob.

MR. KLEIN: In light of Carrie and Angelo's comments, two items. One is, it is really a hot market in the state. If a builder can sell his houses with no brain damage he is not going to deal with the complexities of trying to figure out this calculation, particularly if he has some liability if he's wrong.

And potentially, if we could go into jurisdictions, identify projects that are in the price range that are in construction, jurisdictions know that because they have already got the planning approvals and issued the permits. We could do an outreach program to builders and have a simple computer software template where we could go in and calculate for each project what all the numbers are. So the builder doesn't have a frustration barrier to participating and it is not any worse for him to deal with this buyer than any other buyer who is anxious to buy his product. Certainly it's a waiting list type situation in the Bay Area. And if we could eliminate this barrier it might be helpful.

The second is, it sounds from Julie's comments that it would be helpful if we could report to the Administration that we had taken actions in this calendar year, in this reporting period. We have a tremendous resource here with Carrie and Angelo on the Board. Perhaps we could authorize the action and just ask the staff to consult with them as they go forward. Because I certainly in recognizing their expertise, and the Chairman's expertise in this area, would feel very comfortable in delegating out that interface to those individuals.

CHAIRMAN WALLACE: And that maybe is the way so that we don't wait 30 days.

MS. HAWKINS: Right.

CHAIRMAN WALLACE: And you can get your program kind of gestating and so on. I think it would be helpful, though, if you had this kind of expertise.

MR. MOZILO: Can I just ask -- If I can just belabor this for a second. Julie, I fully understand what you are saying and am not -- I am fully supportive of the program but I want to make sure we are not trying to spend money 'to sell Firestone tires. (Laughter). There's something fundamentally wrong here.

MS. HAWKINS: Yes.

MR. MOZILO: It is going to be a waste. Nobody can market something that is not marketable. My question is: Is the developer paying more in terms of school fees by participating in this program other than he would normally pay or is it just a calculation that is the issue?

MS. PARKER: They will pay these same fees whether they participate in this program or not.

MR. MOZILO: Okay, so it's a calculation and a liability on that calculation that's an issue?

MS. PARKER: That negotiation is established with the school district and is outside of this parameter. Let me just add a couple of additional comments. The staff last year tracked this. Greg has been doing an outstanding job on a weekly basis about where we are doing activity. And it was because of an analysis of trying to look at sales data of new construction product by locality that we were able to essentially come up with reasonable information to have the Legislature make the changes that we did. We found by looking at actual sales data that there were not product and that's why we needed to have the sales prices raised.

For some of you who are attending the presentations we had, at one of the last--1 can't remember if it was the last one or the Board Meeting before that--where we talked about the new down payment assistance program that we were also implementing for the state. We mentioned what we are trying to do is create a situation where we could have multiple layering of programs so that you could get a CHFA first 97 percent loan and you could get one of the state's new 3 percent silent trailing down payment assistance grants. And if it was new construction we could use the school facilities program. So particularly in high cost areas, this might help where the product is a little bit higher by having multiple layering. And that's what we need to be doing. More discussions of getting this word out there.

Bob, we have one developer, Kaufman and Broad, who has a project in Sacramento, Mather, where they were required by the local government to have a third of those houses set aside for 70/80 percent of median income. Julie and I visited. And we walked in with Kaufman and Broad. You get this income, this person is automatically eligible, we have CHFA rates. They know, bang, bang, bang how this all fits in. So we're trying some of those mechanisms. We think that we can be successful.

Frankly, the $3 million that we have done to date, we have had more response since the legislative change than we were having prior to it. So it's still early. We are most conscious about it and that's why we didn't spend any money, per se, on marketing until we got these legislative changes that we felt we at least might have a viable program. Now we need to go out, given the information and the analysis we have done to date, and see whether some of these things that we can try.

We have talked about,.even though we have $2 million to spend on this marketing proposal, doing it in some kind of a phased basis so that we are not going to commit this amount and guarantee somebody but to start out along the route. The dilemma is I do not have the authority, frankly, to make a commitment of this amount and I am not willing to essentially take this amount and do a contract in $500,000 increments to get around what is the delegated authority that you have all given to me, which I believe violates the good faith agreement that we have with one another.

CHAIRMAN WALLACE: Sure. Well, Terri, do you have any objection before you sign the contract to passing it by, say, Carrie, myself and Angelo?

MS. PARKER: We would be thrilled to have the --

MR. MOZILO: That's one suggestion. Another suggestion might be to provide the authority. I assume the $2 million authority is singular, monolithic to this issue.

CHAIRMAN WALLACE: Correct.

MS. PARKER: Correct.

MR. MOZILO: Okay. That we give you the authority to do it with the understanding that it will be done in a phased basis, with reporting back to the Board. If you wind up calling me I would be more than happy to participate. But reporting back to the Board how they are doing. What the goal, what kind of response we're getting and to get a sense of how it is going before we spend the entire money and get no results.

CHAIRMAN WALLACE: I think that's fine to fold that in. But I think with your expertise, having been there done that, and Carrie, and to a lesser extent with my expertise as a developer and kind of knowing same of the political ways this thing came about, which wasn't a thing of beauty. I think you would have some valuable resource, Terri, before you signed that contract, if you would pass it by us with a Little staff game plan on how you intended to implement it. Okay? Can we fold, Angelo, both your last comments and my review comments into the motion and amend the motion to that effect and go forward?

MR. KLEIN: Mr. Chairman, with those comments I would like to make a motion to approve.

CHAIRMAN WALLACE: Klein makes a motion and Ms. Bornstein seconds the motion. (Laughter). Is it clear, Dick, what's hanging in there?

MR. LaVERGNE: Absolutely.

CHAIRMAN WALLACE: Okay.

MR. LaVERGNE: We would anticipate keeping the Board apprised in any event.

CHAIRMAN WALLACE: I'm sure you would. Okay, any further discussion on the motion from the Board or the audience? Hearing, seeing none -- Yes, Angela.

MS. EASTON: I just have one question. Do you have an indication of how many proposals you would be likely to receive?

MR. LaVERGNE: Today is the due date for receipt of the proposals. We don't have an indication yet. They are not due until 5 p.m. and there is a tendency to wait. However, we did have 45 inquiries during the over a month-long process in which proposals were prepared.

CHAIRMAN WALLACE: You expect to get some?

MR. CARTER: There will be quite a few.

MR. LaVERGNE: We hope to get some, yes, sir.

CHAIRMAN WALLACE: Sure. Angela?

MS. EASTON: Thank you.

CHAIRMAN WALLACE: Any further questions? Board? Audience? Hearing none --

MS. HAWKINS: I would just like to comment that --

CHAIRMAN WALLACE: Yes.

MS. HAWKINS: -- I really commend you, Terri, in handling it this way because you could have very well just gone ahead and done it in $500,000 increments. I really respect the fact that you came to us and did it the way you did.

MS. PARKER: I appreciate that, Carrie. But again, the opportunity to have conversations with a couple of you, given your expertise, frankly, would be very beneficial for all of us in moving forward with trying to develop some kind of a strategy. We want to be able to demonstrate to the Legislature that if it gives us money for housing, given the substantial needs out there, that we can design programs to utilize these dollars. And if we can't, if in the last resort we can't, Julie and I are going to be putting our heads together and coming back to the Legislature with some other kind of design so that these dollars are not lost to housing.

CHAIRMAN WALLACE: *Very* good. Secretary, call the roll.

MS. OJIMA: Thank you, Mr. Chairman.

CHAIRMAN WALLACE: On the amended motion.

MS. OJIMA: The amended motion. Mr. Sherwood?

MR. SHERWOOD: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS.. OJIMA: Mr. Czuker?

(No response).

MS. OJIMA: Ms. Easton?

MS. EASTON: Aye.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Mozilo?

MR. MOZILO: Aye.

MS. OJIMA: Mr. Wallace?

MR. WALLACE: Aye.

MS. OJIMA: Resolution 00-42 as amended has been approved.

CHAIRMAN WALLACE: Resolution 00-42 has been approved. We are at 11:20, let me tell you the game plan. I'm going to go through Item 7 and 8, which we should go through quickly, I think. Assuming that occurs, then I am going to pull up Item 9b. Mr. Howell is apparently here and

I think we can deal with that by, if all goes well, by noon. We have moved the lunch hour up from 12 -- You guys are doing great. How many times do I get to say that? We're on a roll.

We have moved the lunch up from 12:30 to 12, which would allow us to commence -- And Ken, Peter is here, right? You have got to be Peter Shapiro or you are in the wrong room. Or city, Peter. Yes, yes. So we would try to have that half hour of fumbling through lunch and start at 12:30 instead of 1. It moves everybody up a little faster. So that's the game plan.

## OTHER BOARD MATTERS

Now, having said that, Item 7. Are there other Board matters that should be discussed or reports? We do have reports that Ken has submitted. We typically don't have him get up and talk about them unless you have questions on them. Are there any questions on any of that? Do you want Ken up? Are you okay? You did your homework? Item 7, any items from the Board?

## PUBLIC TESTIMONY

Hearing and seeing none we will move on to Item 8, public testimony. Is there anybody in the audience that has a burning issue--or even a non-burning issue--that they feel compelled to put forth at this time, you're more than welcome to do so, that is otherwise not agendized.

Hearing and seeing none, the program is working. If we could, then, move to Item 9b. Sandy, I think you have, maybe, opening remarks and then we'll present Mr. Howell for a discussion on the Director liability insurance.

MS. CASEY-HEROLD: Several sessions ago Dave Beaver gave an overview presentation on director liability. If you will recall, the general rule is the state indemnifies directors for any acts that they may have committed that is viewed as wrongful so long as they acted within the scope of their duties. But several questions arose about that. What constitutes the scope of duties. What happens if a court discovers that they haven't acted within the scope.

So we did a little bit of investigating and we went to the Office of Risk Management, who works with Mr. Howell's agency. Mr. Howell is a Senior Vice President and Director of public Entity Practice with the Driver Insurance Services Company and he is going to give us a presentation on excess liability.

MR. HOWELL: Thanks, Sandy. The Robert F. Driver Company. I believe you may have a handout, I gave them to Sandy.

MS. CASEY-HEROLD: There are additional handouts in the back.

MR. HOWELL: It's a cover like this and there are more in the back. The Driver Company is the broker for the State of California through the office of Risk and Insurance Management for various placements on behalf of the state. One of them is the property placements on behalf of MFA and the earthquake insurance was just recently renewed. My team in San Francisco completed those on your behalf.

So, what I have been asked to discuss today is the opportunity, if it exists, to provide directors and officers liability insurance, should you be interested in it. In today's presentation on page 2 you will see that we are going to have a brief discussion of what directors and officers liability coverage is. Then specifically under section 2, discuss the availability of coverage for the two areas that I understand CHFA is most interested in addressing, the punitive damages issues, and of course, the scope issue. Then a few moments about the availability and cost of such coverage and then a brief discussion of what other agencies are doing in this regard.

If you turn to page 3. I have included a brief statement. Directors and officers coverage pays for damages snd defense costs for wrongful acts solely in the performance of duties for the public entity. And those underlined and italicized words are defined words within any directors and officers D&O policy. I think that the key things to say with respect to those words is *damages* means *money damages.* It does not include coverage for relief that would be provided such as a court order that is not a damages order. What they will do is defend you up to the point you get to a court order but they will not pay for anything that isn't true damages.

Defense costs is really what you are looking for when you buy a directors and officers liability policy, usually, because odds are, really, there is nothing indemnifiable except for the fact that you need the attorneys' defense costs if you buy it. Now, for this entity, because you are a quasi-state entity, you do have the state defending you on those cases. And under California law, I believe you have ten days to tender your defense over to the Attorney General's Office. You will receive a defense, under California law, provided it is within the course and scope.

You can see in that last phrase, *solely in the performance of duties for the public entity*, that the insurance policy is not going to respond unless the claim arises from your activities within your relationship to CHFA. So one of the points that I was asked to investigate was, is there a way to get coverage that would broaden that scope in case there was a gray area claim that was somehow or other deemed by the state or the Attorney General's Office not to have been within the course and scope. But you probably would not have been named to such a lawsuit had you not been on this Board.

In insurance language what they talk about is that the duty to defend is broader than the duty to indemnify. What that means is that the insurance company -- It may be found that the claim, or what gave rise to the claim, really was not within the course and scope of your role here. But until that is found through the adjudication process they have an obligation to defend you until you get there. So the insurance policy in almost any case that I can think of, even in the gray areas, is going to provide that sort of defense. But in my opinion, the state Attorney General's Office is going to provide a defense in those same cases that the insurance policy would have defended. So I don't think you are going to receive an advantage by purchasing a D&O policy to address that specific concern.

MS. BORNSTEIN: In the event that there is more than one state agency as a named defendant and the Attorney General determines there might be a conflict and then authorizes us to seek outside counsel, would a D&O policy provide some benefit at that point? I'm not clear on state law at that point, of who pays for outside counsel.

MR. HOWELL: If the state authorized you to engage outside counsel you would be authorized to use your funds as an entity to purchase those services. Because, therefore, what they are saying is they are not going to provide them, even though they have an obligation to do so.

MS. BORNSTEIN: And I think under most circumstances, even if the Attorney General defends an agency, they bill that agency for the costs. So wouldn't a D&O policy provide then that the insurance company pays the costs?

MR. HOWELL: That's correct.

MS. BORNSTEIN: And so there would be that benefit regardless.

MR. HOWELL: That's correct. And I have negotiated policies on behalf of state agencies where they agreed that the Attorney General's costs, when billed, were reimbursable under the contract. So while we haven't achieved a benefit of providing broader coverage, perhaps, than what the state allows right now in this one area, you do have that advantage of getting reimbursement. Which is more of a budgetary advantage as far as, you know, preventing shock hits.

The other thing that 1 think you get if you purchase the insurance policy is that some state agencies have found that by putting in the third party insurer and giving them a certain amount of control over the selection of legal counsel, they have more options. Because as you illuded to, you don't necessarily have authority to go engage whatever firm you wish to have defend you, as a quasi-st'ate entity.

However, under an insurance contract that we would negotiate for you, the insurer, which always would maintain the ultimate right to select counsel, would be the hiring party of the counsel. So therefore, in essence, you are no longer obligated to solely use the Attorney General's Office. We would negotiate a contract that certainly allowed the Attorney General's Office to be used by that insurance company to provide your defense. But there are matters, perhaps, that you as a Board, or the insurance company in their discretion, would feel that a specialist firm has the best opportunity to defend you in.

So that's a benefit that some agencies have perceived because it sort of takes it out of the political arena. And believe me, the Attorney General's Office does do an excellent job on most every case I have seen them involved in. But I know that in certain areas some state agencies have thought that, particularly related to construction litigation, which is very technical litigation and perhaps of significant concern to this body; employment practices, although the AG has been staffing up in this area; there has been a certain bias towards outside counsel where possible in those areas, particularly construction.

And then at the bottom of page 3 I have mentioned that a wrongful act is an actual or alleged breach of duty, neglect, error. They go on and on. Misfeasance, misstatement, those kinds of things. What it isn't is general liability, bodily injury, property damage, workers compensation, those things. Criminal acts, those are usually covered under fiduciary policies or crime bonds.

MS. HAWKINS: Excuse me, Mr. Howell. I think Mr. Klein had a question.

MR. HOWELL: Sure.

MS. HAWKINS: I forgot for a moment that I was in charge here.

MR. HOWELL: I'm sorry.

MR. KLEIN: In terms of the specialization issue. I think that's particularly relevant because with the scope of what is involved here, and in the employment area I can see some pretty exotic or unusual-type employment claims. The Attorney General's Office might not be used to the scope of our activities. And/or in the construction area we do some fairly special use projects that might give rise to some highly specialized counsel's needs. I would see the potential, therefore, to have a choice at least of outside counsel as being very valuable.

MR. HOWELL: Or at least input into the selection. Which most insurance companies that we do business with would be inclined to follow your recommendation, provided that the fees were in line with the people they would normally use. And certainly they don't want to lose a case or be on the wrong side of that.

One of my largest clients is the California State University. And with respect to their construction matters, what I have found is that that is such a technical area, and a very difficult litigation area, that it is very expensive. Unfortunately, we have seen seven figure defense costs where we won. That is not, I guess, that unusual in the construction arena, to win. It's sort of a pyrrhic victory when you have spent seven figures winning but construction is a very complex litigation no matter how you go.

And employment practices. I think the exposure that concerns me or is an exposure involves a lot of discriminatory areas. Not so much in the employment area but even with prospective tenants in the projects and the areas that get the projects, as well as American with Disabilities Act issues related to how they are built and compliance. Throughout California what we have seen in our public entity practice is that about 20 percent of the claims pending against our clients are employment practices or ADA or discrimination-type claims, civil rights-type claims, where the real hook is the defense costs that the plaintiff's attorney can achieve.

That 20 percent of our caseload represents 70 percent of our costs. That is what the real crux of the matter is these days, in my opinion, in California law. We are trying to motivate in that area but there is not much you can do other than throw up the best defense. Put in practice now the policies that you hope will pay off down the road.

Now with respect to punitive damages, because that is the other discussion piece that was brought up. Under California law as I understand it, and while I am an attorney I don't purport to be your attorney, you have lots of legal advice. Punitive damages in California are not insurable in the sense that there is in the civil code a section that declines coverage for intentional or willful misconduct. Punitive damages are supposed, and I say supposed, to be derived from findings of intentional or willful misconduct.

What we have noticed with our clients of late is that more and more of them are receiving punitive damage awards. Sometimes not serious amounts when you look at them from the outside, $15,000, $30,000 here that is intended to punish, but they are being levied against the individuals. Now, with my client, the California State University, the Board of Trustees has authority to pay those at their discretion or they can defer it to the Legislature. With this entity, it is my understanding, that it would automatically go to the Legislature before such damages would be payable. Which raises the specter of a political question about, if it is punitive why should we be reimbursing it, and I don't think people necessarily want to go down that road in a state legislative-type forum.

As far as the coverage goes, there are markets offshore that issue what we call financial guarantee contracts. Because if it is uninsurable in California and you want a guarantee you are going to have coverage you need to purchase a contract that isn't subject to the law in California for insurance. So I can place such a policy for you and numerous private entities place such policies.

At the same time I am not so sure that it would be regarded as a viable use of state funds to purchase a policy whose purpose is to circumvent the public policy of the state, which is, supposedly, that we don't insure punitive damages even though we know that juries are awarding them in ways that don't really live up to the threshold that we think of as serious and willful misconduct. They are attributing them in much lower thresholds. So while that is an option and subject to your internal counsel's recommendations I am not so sure that I would recommend that use of your funds.

On the other hand, there are policies available that are written on admitted paper and licensed insurance companies or surplus lines insurance companies that will include punitive damages to the extent permitted by law. And in my opinion, because of the new law that allows the Legislature to reimburse upon their finding that they wish to reimburse, it is therefore lawful in California for state entities at least, maybe not private, for punitive damages to be insured under the contract. That is my interpretation. Certainly it could get into a gray area.

Now, were I the insurance company, I would be thinking, well, then I've got the insured, i.e., the State of California, making a coverage determination as to whether the punitive damages are insurable. We would certainly negotiate that and get that down very clearly with the insurance company that, basically, if there were going to be punitive damages awarded they would be automatically deemed lawful under this contract without going to the Legislature because we were going to make a finding that we could go. And we would receive such permission to reimburse those and we would have that written into the contract. By doing that I believe you have achieved the punitive damages coverage.

MS. HAWKINS: Yes, Mr. Klein.

MR. KLEIN: So that would put the Legislature in the position of having to decide whether it was good public policy to have the punitives reimbursable. But the Legislature would not be in the position of having to take taxpayer money to pay for it.

MR. HOWELL: That's correct. And I'm not even certain you would have to go to the Legislature if you could draft it into the contract. It would take a challenge by somebody to say that this was not going to be reimbursable by the Legislature, that you would not have succeeded if you contracted that into the contract. And I don't think anybody is going to make that cause of action against the Board because it would be only to the detriment of the state to deny you the right to recover against your insurance company something that they have contracted to pay upon the finding.

So basically the way I would set it up is the insurance company would agree that under California law, by a finding of the Legislature, punitive damages are permitted by law to be insured to this state entity. Therefore, rather than force you to go get that finding from the Legislature the insurance company would agree to make those payments on your behalf without such a finding by the Legislature.

And then, I believe, what you could do is you could go to the Legislature if you wanted to, but I don't think anybody would force you to because they know there's coverage already in place should you have a finding of punitive damages. I don't think we would need the legal trigger of the finding by the Legislature so we would have avoided that process, which I don't think we want to go through.

MR. KLEIN: You might want to procedurally go to both houses of the Legislature, to the majority and minority leadership, and ask them their advice if such an occasion arose. So that it was something that was done consistent with the intent of the Legislature. They may elect since there is insurance coverage not to have to bring it up but at least we have their input.

MS. PARKER: Julie, what is your sense? I'm not sure how practical it is of getting something like that. Why would they -- Let me just throw out the question, Bob. Why would they necessarily respond?

MR. KLEIN: Well --

MS. PARKER: I'm not sure, unless something was put formally to them, if they didn't have to respond to it I'm not sure that they -- Julie, you can speak from your prior position, maybe.

MS. BORNSTEIN: My sense of it would be if the incident that gave rise to the claim was of general public interest and public knowledge then the legislative leaders might appreciate being kept apprised if they are hearing from constituents. And it might be worth doing that if, in fact, it is something that has not generated any press interest, in spite of whatever dollar amounts might be involved. My gut reaction is I would be hesitant to go to the legislative --

MR. KLEIN: Right.

MS. BORNSTEIN: -- leaders at that stage of the game and --

MR. KLEIN: Right.

MS. BORNSTEIN: -- bring them into it if it was already in the insurance contract, and I assume, calculated into the payment of the premium.

MR. KLEIN: Good point.

MR. HOWELL: I do believe that there will be a premium increase to obtain that kind of advance drafting although I don't expect that it would be that much, because frankly, they don't necessarily expect punitive damages awards against a body such as this at the underwriting level. It's one of those things that could happen, of course, and may happen but it's likely not to be a certainty. Certainly it is not going to be a frequency kind of thing, it would be a rarity that it happens, although it does happen.

Where we see it happening right now is in employment practices cases where they are finding that something went wrong and they are mad at some individual for the way they handled that employment practices issue and they want to say something to them. And we are talking about, usually what I have seen is $15,000, $30,000, $50,000-type amounts. Something that hurts an individual, certainly, but in the overall scheme for the public entity it is sot necessarily a major amount. So the underwriters do not expect that you are going to see a $5 million punitive damages award because of the way you do business and the way you are isolated.

MS. HAWKINS: Mr. Czuker.

MR. CZUKER: Did I hear you correctly earlier in your earlier remarks that you said that on one hand you almost don't think we need the insurance. That the Attorney General's Office would be the one that would generally come to the defense of CHFA. And only in a rare instance would CHFA then perhaps be advised to seek outside counsel in a very, very rare case. We are technically not taking construction risk. Our loans only fund at permanent loan when construction is completed.

So from the Board standpoint there are hiring and firing-type labor issues but those generally wouldn't relate to the Board of Directors, it would relate to the executive staff. So I'm asking your opinion, whether you feel more clearly that the added insurance coverage would be helpful.

MR. HOWELL: In my opinion -- And first of all, I'm somewhat interested. I'm under a flat fee contract with the State of California that has a commission rate built in, so certainly my firm would receive a certain amount of commission as a result. With that being said, I want to make that clear.

As far as whether you would get a benefit from such a purchase. The policy would protect the entity against the officer's action in employment practice matters, promotion, failure to hire, hiring and firing, under the standard forms that we are talking about. So there is employment practices liability for the directors and the officers. So to the extent an officer were individually named or the entity were named in that matter there would be coverage for that.

Now, you are right that the state already has agreed that they will pay those costs, so the entities that are buying the coverage right now are buying it usually to protect their budgets from shock losses; to pay for the losses that even if they are being handled by the AG's Office, if they exceed the tort claims fund then they are on the hook for above $35,000, which is the amount the AG can spend on tort claim fund claims.

And then the AG does bill CHFA, I believe, back for their costs. Now the AG's rates are fairly reasonable and they do time tracking now. I think their rate is somewhere around $125 an hour on average so it's not like it's a rip-off or anything like that. They do a very good job in that. So it's just that there are costs that would be covered under the policy excess of the deductible.

For an entity such as CHFA, certainly you have a sizable budget. The question is whether you want to insulate that from the shock loss or specific types of claims. Some of the entities feel that what they have allowed themselves to do is they have transferred the selection of legal counsel to the third party as a benefit; they have protected their budget as a benefit; and they have provided themselves with avoidance of a shock loss situation.

MS. PARKER: Mr. Howell, can I ask a question that relates to Mr. Czuker's question and maybe just make an observation. Your clients that you typically have these policies with that have the concern about protecting their shock loss impact on their budget are probably traditionally state agencies that have to go to the Legislature'and seek an appropriation through the Budget Act for their annual operating budgets.

MR. HOWELL: That's largely correct.

MS. PARKER: Much like Julie would need to do that. If she had litigation unanticipated she may not have funds in her budget to, essentially, pay for an unanticipated litigation. And in that sense, having a policy that might provide some coverage should that occur, for those state entities that might be more beneficial.

The one thing about CHFA that's different is since we do not -- We are not part of the state budget. Our case would be a situation, if something like this occurred, of coming to the Board of Directors and notifying them as part of our operating budget that we have adopted by the Board every March that this may be an impact to that and come out of our budget or our reserves. But we would not have to seek, in that sense, legislative authority. This agency has flexibility that some of our colleagues that run other state departments do not have.

MR. HOWELL: Yes.

MS. PARKER: So you need to just be aware of that from the standpoint of a benefit that might not necessarily be a benefit as much to this agency as it would be your typical state agency.

MR. HOWELL: Right. The other state agencies, usually what they have found is that they will get the money out of the Legislature if they need a big influx for a specific claim and it comes out of next year's budget. They tend to add it up. And that's what the other agencies have seen, it shows up the following year.

As far -- You have the ability to go and readjust your budget midterm and allocate the funds to pay a judgement. Let's say we are talking about $1 million in defense and judgement, let's say it's a horrible case that goes that way. I think then the only benefit that you would find is, would you rather transfer the risk of that exposure to an insurance company rather than have to dip into your funds to do that.

And of course, knowing that there are frictional costs. Because I am a large proponent of self-insurance of public entities and we manage self-insurance pools for numerous public entities in California. And the frictional costs of buying insurance are that you pay a broker. commission, the insurance company makes a profit, there's overhead and this and that. At the same time the public entities perceive that even though it's always cheaper to self-insure, these benefits of the shock loss, also of having an outside third party who is an expert, let's say, in handling claims or an expert in this specific area of claims, helps. For example, ORIM is an expert in handling all the state auto claims and that's what they do. Rather than have each agency in the state handle their own auto claims you have got a team there that knows what they are doing with that area and that's how they set it up.

MS. HAWKINS: Mr. Klein.

MR. KLEIN: Yes, two things. There is another group here that there's risk with, which is borrowers. And borrowers may come back on work-out situations of some we have previously seen and we may not be prepared, as a policy, to agree to certain work-out restructurings based upon public policy. Some of those borrowers have the funds and the motivation to get very seriously aggressive. In some cases, potentially to try and unduly or improperly influence the Board to vote one way or the other.

We are looking at some periods of uncertainty here. Whether it's the utility issue pushing through substantial increases that affect the feasibility of projects or any other variable. We will do the best job we can but we have some exposure here to borrowers just trying to do our job properly for the state where they may severely disagree with our decisions and our staff's recommendations. Not that I am suggesting that it is something that is highly predictable. I know that there are borrowers out there today who would like to refinance and some of the staff's positions are not real comfortable for them and those people can be very agitated.

But this other issue of specialized coverage. We have the power to do construction loans. We don't because of prevailing wages which interferes with the feasibility. But given that there are cities with prevailing wage requirements on construction when their funds are involved -- I believe San Jose has that requirement, L.A. may have prevailing wage requirements on construction when L.A.'s funds are involved. And as those cities become more active we may see some significant construction activity.

But whether it's construction or employment practices. We are talking about insurance for a risk we did not expect in the first place or it would not be insurance. So if it is a half of a one percent risk, if the prices--and maybe we should let you go through the cost of coverage--if the prices are in the range that we are discussing in terms of the business level that we are involved in, I suggest that that price and cost is deminimus compared to the business level we are involved in. And it certainly protects our ability to focus on public policy as we should without undue pressure created by people that may be very extreme and unreasonable. But courts do illogical things in responding to those kinds of unreasonable pressures.

MR. HOWELL: One thing I should add is with respect to that, the contracts all exclude breach of contract. So to the extent they are alleging a breach of contract there is no defense. However, almost universally those claims come along with a breach of contract that alleges also negligence and wrongful acts that were conducted by the Board or by staff. So usually what happens in those cases is the insurer is obligated to defend you until everything but the breach of contract remains. And if that is what it comes down to, they don't cover the breach of contract and they step out. And, of course, the reason is, what would keep you to honor your contracts if they are insured.

MR. KLEIN: Right.

MR. HOWELL: Sort of like, what would prevent you from committing willful, egregious acts if you could just say, I've got insurance to do these things.

MS. HAWKINS: Thank you, Mr. Howell. Any other questions or comments?

MR. 'HOWELL: Did you want me to briefly go over the costs?

MS. HAWKINS: Yes, go ahead.

MR. HOWELL: Okay. On page 5. Basically, for a straight directors and officers policy that didn't include employment practices, the indications I have received from the market are less than $20,000 with a $25,000 deductible. Because they obviously don't believe that it is going to happen and they are pooling you with a number of public agencies. Somebody is going to have the claim but they price it so that they have enough money to pay for the one. That would be a policy that would probably have a punitive damages sub-limit of $50,000 payable on behalf of one or more directors. We could negotiate a higher sub-limit but we probably would have to pay a higher premium for it.

MR. MOZILO: Is that $50,000 cumulative or singular?

MR. HOWELL: Cumulative under the policy. So it really would be for the small sort of hit. We could get that raised up, I believe to the full limit of the policy. That would be a $1 million limit policy and we could have it removed. It might double the price of the policy but certainly not more than that.

A full policy that would provide general liability, which would be all the bodily injury and property damage potential claims. Directors and officers liability as well as public officials and employees liability, employment practices. The market that we normally do business with has said that they would do the policy for $5 million at a $25,000 deductible for less than $125,000, which surprised me. They also said that they would--assuming you have a relatively clean history, which is what we were told.

They also said that they would reduce that to the extent we could show that you are really contractually removed from the primary layer of cases because of the fact that you are lending, per se, to the San Luis Obispo Housing Redevelopment Authority and they are the ones primarily responsible. And that you are going to be able to be indemnified by them on a first line basis and that only your sole acts outside that indemnification clause would be their concern. They think that they can get the premium down even below $100,000 on that kind of form.

If the only thing you wanted to focus on was the punitive damages issue and an offshore financial guarantee contract, the minimum premium on that is going to be $25,000 with a $25,000 deductible. Again, I don't believe that that contract is something you should pursue but we certainly can place it for you if you desire it.

(Chairman Clark Wallace re-entered the meeting room.)

MS. HAWKINS: Mr. Klein.

MR. KLEIN: Under the $125,000 policy with the $5 million limit what would the punitive damage level be?

MR. HOWELL: That one would, right now, include a sub-limit that's low of $50,000 so we would want to negotiate a higher sub-limit for that. A give-back that said, to the extent permitted by law, or something to that effect.

MS. HAWKINS: Okay. Any other questions? Okay, Mr. Wallace. I think the presentation is finished so what is your desire as far as what is our next step here?

CHAIRMAN WALLACE: Discussion by the Board based on what you have heard. Do we need to go beyond that which the state provides us today? That is my sense, having missed all the discussion. Now isn't that sharp. Bob. Thanks, Carrie.

MR. KLEIN: My personal view as referenced in the earlier comments is that we have a wonderful Board here of people who come together from different disciplines and backgrounds and contribute for essentially no compensation because we are committed passionately to the public policy of affordable housing.

In that context I do not think it is reasonable for Board Members to be bearing a half-a-percent risk. I don't think these types of claims are probable, but even if it is a half-a-percent risk I don't believe it is reasonable that there should be exposure to major financial claims which are easily insurable at a minor cost.

I do believe that specialized counsel can at times be extremely important and if you don't have the coverage you are not going to have an insurance company there on your side motivated to distinguish for you between whether the Attorney General has the expertise or doesn't. And, of course, the Agency will benefit if there is ever such a claim in that the Attorney General's billings, which would clearly in most cases exceed $35,000, would be reimbursed through this insurance that would be purchased.

MS. CASEY-HEROLD: Mr. Klein, I do want to address one thing. I keep hearing about specialized counsel. There have been new developments that have been occurring through the Attorney General's Office which are making it increasingly more difficult to go to outside counsel. Generally, they will grant authority to do that if there is a conflict of interest but beyond that it is very difficult. So if that is a part of your decision-making, I would not put too much gold on that.

MR. KLEIN: Then I would ask the question, does the Attorney General's Office prohibit supplemental expert counsel from being available in a case?

MS. CASEY-HEROLD: It's a difficult hurdle to get supplemental counsel. There has to be a good justification for it.

MR. KLEIN: Theoretically, at least, we would be notivated.

MS. PARKER: Sandy, has the bar been raised even further because of the most recent requirement under the contracts for any state agency to be able to go out and hire state counsel? That we had to demonstrate that this could not be accomplished by state civil service attorneys.

MS. CASEY-HEROLD: Exactly, that's exactly the case. Not only do we have to go now through the Attorney General's Office to get their permission but the state attorneys union is also involved in part of that decision-making.

MR. KLEIN: And is that the case even if the cost is not to be borne by the public?

MS. CASEY-HEROLD: It's still the case.

CHAIRMAN WALLACE: No, wait a minute. I can't go out and hire my own private counsel? Sure I can.

MR. KLEIN: She is saying the Agency.

MR. MOZILO: At your expense.

MS. PARKER: At your expense.

MS. CASEY-HEROLD: The Agency.

CHAIRMAN WALLACE: At my own expense, sure. At Agency expense, no, is what you're saying.

MR. KLEIN: Maybe there is a very important point there. If we have insurance it is not the Agency that would be hiring the counsel, it is our insurance company which is a private company.

MS. HAWKINS: Right.

MS. CASEY-HEROLD: Right, right.

MR. KLEIN: So they can't prevent --

MS. CASEY-HEROLD: As being individually named.

MR. KLEIN: So how can they -- The Attorney General's Office would prohibit a private company from hiring the counsel?

MS. CASEY-HEROLD: No, I'm sorry. As it relates to the Agency, the AG's Office would have to give permission. As it relates to individuals, each individual could go outside and hire their own counsel.

MR. MOZILO: No, the question is a different question, Sandy. The question is a different question. If we have insurance, the insurance is a private company.

MS. CASEY-BEROLD: Right.

MR. MOZILO: The private company is hiring counsel to defend us. The state is not paying for this.

MS. CASEY-HEROLD: As individuals, right.

MS. PARKER: I think the point there is that to the extent that we do that, that provides another benefit of having the policy.

MR. KLEIN: Right.

MS. PARKER: Because it gives us more flexibility of being able to hire the caliber --

MS. CASEY-HEROLD: Right.

MS. PARKER: Because the insurance company is not bound by what we would be bound by.

CHAIRMAN WALLACE: Can I have Johnnie Cochran? (Laughter).

MR. HOWELL: I'm afraid his hourly rates are a bit high but we could probably supplement it with your own.

MR. MOZILO: Mr. Chairman, I would just like to make a general comment, a rhetorical comment. From a personal point of view I think it is an important incentive for people from the private sector who are willing to spend their time, energy and their own personal expense -- I mean, $100 a meeting is not the incentive to do this. To have the assurance that there is D&O coverage, liability coverage, to the extent described in the full general liability D&O and employee practices would be, I think, an incentive for people not only to remain on the Board but also to attract people from the private sector for the Board.

People who have something to lose, aside from their time and their energy, but something where there could be an attack on their personal wealth would be a dis-incentive for them to participate, even though they would want to. So I think, again speaking personally, it is very important to have something like this. And it is a deminimus cost to the Agency to have it, that kind of security.

CHAIRMAN WALLACE: Let me set the record straight. Angelo, we don't make money. That 100 bucks is $91.06 or whatever. And by the time I file my damn disclosure statement, I'm way in the hole. Julie.

MS. BORNSTEIN: I just wanted to clarify one point on the requirement to use the Attorney General. If the Agency purchases outside insurance that does not relieve us from the statutory obligation of having the Attorney General represent us, does it?

MS. CASEY-HEROLD: To represent the Agency.

MS. BORNSTEIN: To represent the Agency. So if the Agency purchased the insurance and we got sued we would end up actually having two teams of attorneys. The Attorney general would be representing the Agency to the full extent allowed by the law. In addition to that the insurance company at that point --

MS. CASEY-HEROLD: (Overlapping) counsel.

MS. BORNSTEIN: Could go for an outside counsel. What I understood, the insurance company, if it deemed I suppose, the Attorney General to have the adequate expertise, could simply reimburse the Agency for the Attorney General's services.

MR. HOWELL: Correct.

MS. BORNSTEIN: Okay. So it's both the flexibility of getting an outside team, or in the alternative, the possibility of an outside source paying the cost of the Attorney General defense. Is that correct?

MR. HOWELL: Correct.

MS. BORNSTEIN: Okay.

MR. HOWELL: And I think what you're seeing is the issue of while you have coverage, theoretically, and certainly do, it is cheaper to be self-insured in the long run. The added benefit of having the outside option is probably what is at stake here and the ability to attract directors. Unlike most state agencies or entities you have a participation from the community that is different than CalTrans or the board at the prisons and what have you. It's a different make-up, certainly.

CHAIRMAN WALLACE: Cutting through this since I was out, what is that deminimus cost, roughly?

MR. HOWELL: If you look at page five. I believe it was page five.

CHAIRMAN WALLACE: Page five?

MR. HOWELL: I outlined a couple of options that we have gotten what I would call indications from the markets of what they would be willing to do after reviewing the packet that Dave Beaver submitted to me. For a straight directors and officers policy within California we believe the premium would be $20,000. Except that if you wanted a higher sub-limit for punitive damages coverage, to the extent it could be reimbursed, that would increase the premium.

The second bullet is probably the best of the three options in that the market we do business with, the Royal Insurance Company, which is a highly rated insurance company, they have indicated a premium of $125,000 with a $25,000 deductible for general liability, plus the employment practices, plus the D&O. That to me is a pretty good rate.

Although, again, you have got to look at -- You haven't seen that much experience and you're covering the shock loss. So it's if and when it comes in. We do know that if you do have an employment practices case the average cost right now in California is about $75,000 on all employment cases and that is mostly driven by legal costs.

Then the last one is if you are really just focused on the punitive damages issue and you wanted to make sure you would have punitive damages reimbursement. You could go offshore and get a financial guarantee contract with a $1 nillion limit and a $25,000 deductible. But as we were fiscussing, it probably circumvents the policy of the State of California for you to take funds and try to get around the existing state law on punitive damages and invest them offshore.

MR. KLEIN: Whereas the second option lives within the state law.

MR. HOWELL: It does. There is a chance there could be some punitive damages gray area that wouldn't be covered.

MR. KLEIN: And under the second option the price would be higher because this only comes with a low punitive damages amount.

MR. HOWELL: Correct. What I would suggest is that we get authorization following this meeting to really come back with some firm quotes and offers and tenns that would specifically lay out copies of the policy forms.

CHAIRMAN WALLACE: Okay, that's a good suggestion. Armed with that I think we need to get our concept. Do we want this supplemental? Is it of value? Get that fundamental conceptual decision made and then, subject to seeing some hard numbers and policy limits and so on. Is there a motion?

MR. KLEIN: I'd like to make a motion subject to seeing the actual policy limits that we proceed to continue our due diligence here and get the information available for the next Board Meeting.

MS. HAWKINS: I'll second that.

CHAIRMAN WALLACE: There's a motion by Klein and a second by Hawkins. Is there discussion by the Board of that motion? Seeing the normal shyness that we have come to know and love here on this Board, is there anyone in the audience that -- You don't dare, do you. Anyone in the audience wishes to advise on the motion? No further questions from the Board or the audience. Secretary, call the roll on the

Klein/Hawkins motion.

MS. OJIMA: Thank you. Mr. Sherwood?

MR. SHERWOOD: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Aye.

MS. OJIMA: Ms. Easton?

MS. EASTON: Aye.

MS. OJIMA:. Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Mozilo?

MR. MOZILO: Aye.

MS. OJIMA: Mr. Wallace?

MR. WALLACE: Aye.

MS. OJIMA: The motion has been approved.

CHAIRMAN WALLACE: That's not a resolution, that's a motion, right?

MS. OJIMA: It's a motion.

CHAIRMAN WALLACE: The motion has been approved. We will expect, I imagine, Sandy coordinate.

MR. HOWELL: May I ask when the next meeting is?

CHAIRMAN WALLACE: January 11.

MR. HOWELL: January 11.
CHAIRMAN WALLACE: Is that sufficient time?
MR. HOWELL: We can get, I think, the main form limits and terms negotiated. Probably specific endorsement language that will be developed takes a few months longer than that as far as related to punitive damages.
CHAIRMAN WALLACE: And that's fine. I think if we can keep it moving. We do have a heavy agenda on the llth, I was about to say, anyway. But if we could keep it moving along I think that is very desirable.
MR. HOWELL: Thank you.
MS. PARKER: Mr. Howell, thank you for coming.
CHAIRMAN WALLACE: Thank you, Dan, that was very helpful.
MR. HOWELL: Thank you very much.
CHAIRMAN WALLACE: Okay. We are going to adjourn to lunch. I have been asked to advise you when moving around the screens over here there's wires and things so as you're looking at your lunch and moving through that area don't force us to say, you had a nice trip over there. So be a little more cautious. Otherwise, we will reconvene at about 12:40. Okay? Lunch is on the house, I think.
(The luncheon recess was taken off the record. Mr. Mozilo was not present for the afternoon session.

DISCUSSION OF CHFA'S USE OF INTEREST RATE SWAPS

CHAIRMAN WALLACE: With that, Ken and Peter, we are behind the amended schedule but we are ahead of the original schedule. So I would like to think that we are out of here by 2:15, 2:30, which is an hour and a quarter to an hour and a half. Okay?

MR. CARLSON: Thank you, Mr. Chairman. We have basically a slide show presentation here. I have a few slides which are a summary of the report that is on page 2006 in your materials and then Peter here has a much more entertaining slide show which will probably be helpful. But I hope that my few remarks will be useful.

First, I would like to introduce Peter Shapiro to you. He has been our adviser for derivative products for the last two years. We got him through a very competitive process and we think we ended up with the best independent adviser that exists. His firm, Swap Management Group, is the leading independent adviser of derivatives here in the United States. He is an interesting person himself because he has a lot of history of working with both state and local government, part of it as an elected official, and also a distinguished banking career.

What I think I will do is, now that I have introduced him, is move on into the presentation. I want to zip through what I have got to say because you can hear me anytime, but Peter has come from New Jersey here to talk to us so I want to get out of his way as quickly as possible. I'm going high-tech here.

This is the table that we see all the time in the report that I put in your binder each time showing the status of our variable rate debt and different categories that we use. There is a portion -- As you can see, the amount that we have swapped is now $1.278 billion dollars. The portion that is not swapped is a little over $500 million and the total variable rate debt is about $1.5 billion. That's 25 percent of our total of $7.3 billion of debt. The amount that is not swapped, basically unhedged, is about 7 percent of our outstanding debt.

So here is a look, which I have shown you before, of the debt that we have not hedged in the swap market. And I don't mean to belabor the reasons why we want to have some unhedged debt. In effect, it is our hedge against recession and falling rates. And that just sort of lays out how that looks. The next slide here shows our interest rate swaps. Notice that the biggest percentage of it is against the taxable bonds that we sell for the single family program. Then it is more evenly distributed in the tax-exempt side between both multifamily and single family.

I have a couple of slides here which were in a separate handout that I gave you that show what the benefits are from our program. This one, for example, shows what we think our swap strategy is providing us the ability to do, which in multifamily is to offer a very attractive interest rate that is, at least here, like 135 basis points through the fixed rate market, the conventional market, that our kind of clients are being offered through local agencies or the joint powers authorities for tax-exempt financing. So we are that far through them because of the power of variable rate debt and the swap market.

Then, of course, if this were a market rate transaction it would be probably at least at 8.5 percent and probably have a big balloon in 10 or 15 years. So we think in multifamily we have really been able to make a difference with our program by using a strategy.

CHAIRMAN WALLACE: Are you available for a brief question or two?.

MR. CARLSON: Absolutely. We want to encourage questions.

CHAIRMAN WALLACE: Bob.

MR. KLEIN: In the multifamily field what is the average swap term? Is it a 30 year term or a 15 year tern?

MR. CARLSON: What we have done is in multifamily we have swapped to the full length of maturity of the bonds. In the report that I filed about our recent multifamily transaction it is very similar to the previous one we did last spring. The longest portion we swapped to the BMA index so at least the people who are coming 20 or 25 years after us won't have as much tax risk. That particular swap has almost a 30 year life. In general, though, the multifamily swaps are longer than the single family ones because, of course, we don't expect multifamily loans to prepay like we do with the single family.

This slide is up here to show what we are gaining in single family, which is more volume. This is sort of a snapshot of what we tried to accomplish. I'm sorry, is there another question?

CHAIRMAN WALLACE: Yes. Ed.

MR. CZUKER: I had a couple of different questions, I guess.

MR. CARLSON: Great.

MR. CZUKER: One is, on single family your average maturity is a guess because you don't know if they are going to stay outstanding 30 years, they are going to refinance in 5. So how do you deal with the risk of swapping at an unknown maturity?

MR. CARLSON: That's a very good question and I'm glad you asked it. What we have done there is we have -- The bonds that are sold as variable rate debt in the single family program, that is not the entire amount of debt that we are selling, we are also selling fixed-rate bonds.

What we have done is taken the variability in the speed of prepayments and made the fixed rate investors be the ones who bear the brunt of that variability. The amortization of the variable rate bonds is the same as for the swaps. Generally those are going to work if prepayments are as low as 50 percent of the BMA index or the Public Securities Association, PSA, Standard, up to as high as 300 percent or more. So we figure we have a fairly wide band in which the amortizations will work. Within that band the people that bought the fixed rate bonds are going to see either to hold them longer or less longer than they thought they were. Yes?

MR. CZUKER: The second question is, using today's economic times as a model, in the last several months, the interest rates have declined, T-bills have dropped. How soon does something like that translate into the rates you are able to provide. For example, on the fixed rate multifamily program we are at 5.9. At what stages is it economically viable for you to reevaluate your hedging and the ability to pass along the current interest'rate environment to potential new borrowers?

MR. CARLSON: Thank you for asking that question too. We haven't changed. Just because we have gone to the swap strategy we really haven't changed the way in which we operate to multifamily borrowers. We have always been willing to offer a rate and then sell our debt or lock in our cost of funds, maybe even six months later. So that really hasn't changed from what we have done. And that's a benefit that with our size we are able to do and offer to multifamily developers.

Where transactions that are one-off kinds of transactions done through -- other types of issuers can't do that. We have generally been able to make that offer because the amount of difference in how much rates may change is, we think, within a confined amount and we can always finance the loan that we promised to make at whatever rate it is.

Since 1994 we have had the ability to sell variable rate debt if we had to without swapping it out in case rates did fall. So we felt quite comfortable with the risk that is involved in giving people six months or so lead time before we lock in our cost of funds.

MR. CZUKER: My question really was in terms of a declining interest rate environment where we have, for example, the last couple of months where long-term bonds have dropped in yield.

MR. CARLSON: Okay.

MR. CZUKER: At what stage is it economically viable to pass along those rate reductions in new pricing that CHFA can provide to new borrowers?

MR. CARLSON: Well, I think that at offering 5.90 I think we are still so far through where the market is. I think what we will see is whether or not we are able to increase our market share at 5.90. If we are not we may -- Because rates have fallen we will take a look at it. But the municipal market hasn't changed as much as the treasury market, of course, so I don't think we are going to see, so far I think we have seen the kind of changes that would make this unattractive. I don't know if that is a very good answer to your question.

MR. CZUKER: Well, as a clarification, if you are comparing yourself against Fannie Mae, Freddie Mac, FHA insured type, tax-exempt bond, which can be anywhere from 10 to 40 year maturities. As an example, I recently got a quote through Fannie Mae that was approximately 7.80. That was taxable. On tax-exempt we were looking at somewhere in the 5.75, 5.80 range. So that would mean, hypothetically, that the market is perhaps 10 to 20 basis points cheaper today through a single transaction of a Fannie Mae execution for credit enhancement.

MR. CARLSON: Right. But, of course, we are competing here against fixed rate programs.

MR. CZUKER: That was a fixed rate program.

MR. CARLSON: For how long?

MR. CZUKER: Ten year maturity.

MR. CARLSON: That might not include Fannie Mae's, the whole stack of costs to the borrower.

MR. CZUKER: That included the Fannie Mae load.

MR. KLEIN: Ed, you said it's a ten year fixed; Ken, you're doing a 30 year.

MR. CARLSON: Right, we're doing a 30 year.

MR. KLEIN: Right.

MR. CARLSON: So we may be comparing an apple to an orange here.

MR. CZUKER: There's a slight difference in maturity.

MR. CARLSON: Right.

MR. CZUKER: I'm only saying, to the extent that the market continues to decline, how soon do we reprice and look at our portfolio and say, we can afford to lower our interest rates to our borrowers.

MR. CARLSON: I think we're looking at that all the time. I think it is one of the things we will be thinking about as we prepare the next Business Plan. We will be taking the changes in interest rates into account.

MR. CZUKER: So once a year? That's really what I'm asking.

MR. CARLSON: No, more than that. If things don't change you don't make changes, but if conditions change we'll make some adjustments.

CHAIRMAN WALLACE: Typically, Ken, that might be

two or three times a year?
MR. CARLSON: It could be, yes.
MS. PARKER: You know, I'd like Linn to step up and answer this because I think it is an important question for you all to hear.
MR. WARREN: Ed, in response to your question: One of the philosophies -- Not one but *the* philosophy of the Agency at this juncture is to continue with 30 year fixed rates at a level which gives us some degree of spread. As far as how we set our pricing. The Agency has traditionally adopted a tax-exempt rate and sticks with that rate for a long period of time, which could be as long as a year. We have gone in some situations as long as 12 to 14 months at a particular rate.
What we are now doing as a strategy is to peg our tax-exempt rate well in advance of the CDLAC award rounds because that really does drive the processes. So, for example, we arrived at the 5.9 rate basically two months ago. The last Board Meeting was the first time that we brought it out. And given the long gestation period of projects vis-a-vis CDLAC, we want to give our sponsors a long period of time to underwrite the projects and get the locality financing and all of the above.
So the end result is we intend to stick with the 5.9 rate through this Board, the January Board, the March

Board. And if the markets are such then we will continue with that rate for the second round of CDLAC for calendar year 2001. If for some reason there is some movement that puts us in a position to either go up or go down for the second round of CDLAC, that is when we would evaluate that and advise our borrowers and say, hey, guys, in the future here is what you're looking at, good or bad. Get yourself organized vis-a-vis your financing.

In the old days we would kind of, for lack of a better term, Ed, we would kind of fire it and forget. But now what we are doing is we are pegging it to where the sponsors have to take it to allocation and we now have 90 days or 110 days to sell. So Ken needs a certain amount of certainty as to when he has to deliver the bonds.

So that, in a nutshell, is the strategy. Someone comes in today with a 5.85 Fannie Mae ten-day reset or ten-year reset, that's great. We are not going to get into interest rate plays on a monthly basis because that is not the philosophy of the Agency. So in a nutshell, Ed, that's where we are headed. We think that is a good strategy. And we may periodically be beat on the market but on a 30 year basis we try to set it low enough to where we can't -- we offer a very good alternative to the market.

MR. CZUKER: Thank you, Linn.

MR. WARREN: Does that help?

MR. CZUKER: Yes.

CHAIRMAN WALLACE: Thanks, Linn. Okay, Ken, moving on.

MR. CARLSON: Thanks, Linn. What I wanted to show then too was that in the single family program -- What's wrong? I'm not the clever one with the technology, obviously.

CHAIRMAN WALLACE: Maybe you better swap your computer.

MR. CARLSON: There we go. In the single family program the strategy has been to do more lending by using swaps. So by reducing our cost of funds, combined cost of funds of the fixed and floating rate bonds we sell in each single family transaction, we can reduce our cost of funds by about 60 basis points. And that 60 basis points is enough to justify tripling the amount of taxable bonds that we sell. So we are able to do a $1 billion program where, otherwise, if we had been in the fixed rate market and we wanted to have the same cost of funds we would be at roughly, $600 million.

I think the two real benefits that we are getting out of the swap strategy are lower rates in multifamily, and in single family, more volume. And that's how we have applied the benefits. We can take some more questions now or we can move into the more interesting part of the presentation.

MR. KLEIN: Obviously, that is a huge benefit for this Agency and I would hope that we, through articles or presentations, are getting this out to the other state housing finance agencies, We might have even got an award already.

MS. PARKER: We're trying to do that, Mr. Klein, and also to essentially have the CDLAC committee recognize this for future begging before them for allocation.

MR. CARLSON: Why don't we let Peter get started on his presentation. I think what he has told me is he encourages interruptions and we would like to have lots of questions to keep this informal.

CHAIRMAN WALLACE: Do it your way, Peter, whatever you're comfortable with.

MR. SHAPIRO: Okay. I'm a little bit more comfortable standing up, if that's all right.

CHAIRMAN WALLACE: Sure.

MR. SHAPIRO: Just because I want to be able to point. It's a little hard to point when you're sitting down. Just as long as it's picking up or whatever the requirements that you have there are. I'm probably okay here, right?

CHAIRMAN WALLACE: Sure.

MR. SHAPIRO: I want to, basically, go over some of the points that Ken has touched on and a little bit of how it works. But let me first really start off by saying that we work with probably better than 50 different bond issuers in the course of any year. But the work which has been done on this Agency, we think, is the most far-reaching, the most interesting and the most innovative and has produced the greatest public benefit of any of the work that we do throughout our firm. It's been remarkable stuff. You have got terrific staff that's been working on this and it's a tremendous credit, we think, to this Agency and the people of California, what has been achieved here in just a short period of time.

What I want to talk about a little bit is -- Ken has already discussed some of the benefit which has occurred in probably the best possible way; I want to talk a little bit about how it works. The thing I would emphasize is that this is not rocket science. It may use a different language, it may use some concepts which are not entirely familiar, but it is fully capable in all its aspects of being well understood. So if there are any points where I lapse into lingo or talk about things which seem unfamiliar please interrupt and ask questions. If there are things that stimulate questions along the way, please do so. So let me just start with that.

A little bit in terms of the historical context. Prior to the use of swaps, as Ken mentioned, the bond volume cap, particularly with regard to the single family program, put limits on tax-exempt funding. Taxable bonds were necessary to meet the tremendous demands for housing in this state in terms of growth, the population and all the elements that are involved in the demand for housing, particularly housing at affordable levels.

To lower taxable costs the Agency had used floating rate debt. The capacity for doing that, for just simply using unhedged, floating rate debt is limited. There is risk attached to the use of floating rate debt.

Since the use of swaps we have been able, as Ken mentioned, to see a lower funding cost, both on the taxable and the tax-exempt sides of the financing picture. To use it to expand the number of taxables that could be blended in with regard to the single family program, holding mortgage rates constant, as Ken showed in that slide before. And as a result, on the single family side, to produce 67 percent more single family mortgages than would otherwise have been available. On the multifamily side, even more significant in terms of how much lower the cost that has been available.

Let me turn to basically how a swap works to make sure you guys understand. You start with, basically, an underlying situation. The Agency has already issued its bonds. It has issued floating rate bonds, and it wants to convert its exposure. It is not converting the bonds, by the way. The bonds stay as they are, the bond holder is not affected by the swap, per se. It is important to think of these as separate transactions. But it wants to convert that exposure from a floating rate exposure to a fixed rate exposure. And inclusive of all costs it is trying to produce an all-in rate which is less than what it would have gotten if it had started from scratch and just issued fixed rate bonds. So let's look at how it works.

Swaps exist in a private market between two parties. In this case we'll show CHFA and the swap dealer. And there are a set of floats. In the case that we are dealing with -- Not all swaps have to be this way but in these swaps CHFA pays a fixed rate to the swap dealer, the swap dealer pays a floating index back to CHFA. It's important we think of that, by the way, as an index. Because the floating index fluctuates based upon a broad market. It is an index.

The underlying bonds that we are hedging, CHFA's VRDOs as we refer to them, are a single, specific deal, so they might fluctuate slightly differently. But what we aim to try to do is to get a close correspondence between those two floating interest rates. Let's look a little bit in tenns of the mathematics how it works. First, looking at fixed rate bonds. We start with a fixed coupon on a fixed rate of interest. To add in all the actual costs to make for apples to apples, there is a cost in issuing those bonds. We project it, amortized, across the life of the bonds, add those together and you have an all-in cost. Pretty simple math.

Looking at the other side of the swap. We start with floating rate bonds. Floating rate bonds, by the way, have not just a cost of issuance but also have an annual maintenance cost attached to them. There are marketing fees that you pay to your marketing agent because they have to continually reset the price. And liquidity fees that you pay to a bank to make it so that in the event there were unexpected puts of the bonds that there's someone there to stand behind those puts.

Then we do the swap. You are paying a fixed swap rate. You're receiving back, so I show that with a minus sign, a floating swap rate. The all-in cost is the result of going all of that math. Let's plug in some numbers. Okay. On the bond side let's say we start with a 5.50 fixed coupon. And I'm really just being illustrative here. Add in five basis points of that amortized cost of issuance, giving us an all-in cost of 5.55.

On the swap, again the same bullet points we showed before. I represent the floating rate because it's a moving number. I don't want to plug an actual number so I just put in VR, variable rate percentage. Plus 20 basis points for the marketing and liquidity. That's probably a little bit low in terms of what we're looking at but roughly in the ballpark. Plus a fixed swap rate, depending on where the swap market is, of five percent. Minus that variable rate again because you're receiving that back, and we're saying that the variable rate might be in this case ten basis points higher on the index. It produces an all-in cost of 5.10.

So we are looking at illustrative math to show a difference in cost there. There the swap is beating the fixed rate execution by 45 basis points. Again, just an illustrative example.

But why does this work? First of all, when I talk to most people about it they say, it doesn't make sense on its face. It seems counter-intuitive. One side looks simple, the other side is complex. One side has one step, the other side seems to have three steps and a little bit of a jig in it. Why should it be more efficient? The reason really is that the swap market is an independent market of the bond market. It allows you, as they say, to take apart the transaction into its pieces, to unbundle it, and to take advantage of different efficiencies of different markets as they may, or more importantly, may not exist in certain times. And that is the point I make here, They don't always exist. It is market sensitive.

(Tape 2 was changed to tape 3.)

The flexibilities that it provides, though, often are the source of the efficiency. Again, let's compare bonds with swaps. Bonds, by their nature, take a mass market approach. You are selling a single uniform product to a large number of investors. They are encumbered to a great extent by laws and regulations that they have to abide by. The bond market is, like all securities market--swaps are not securities, bonds are--have a whole range of securities laws that have to be scrupulously obeyed. Because of the preparation that you have to do a bond issue there is a greater timing lag in being able to come to market. And necessarily it bundles together a whole array of risks in a single, uniform package.

Swap, by comparison, is not mass marketed. It is between two parties. Those are the only people at the dance, just you and the swap provider. It can be unbundled into lots of little pieces. You can decide, I want this in here, I don't want this in here, and we will talk about a few of those later. Once you have got the base document in place, once you have negotiated the initial agreement between yourself and the swap provider, as CHFA now has with all of its senior managers and to a certain extent with some others as well, you can literally decide you are going to come to market on any minute of any day. Call them up, do the transaction. Of course, compared to bonds, it unbundles the risks.

Look at this for a second just to give you a sense of the size of these markets. This is not any particularly important comparison, these two things aren't necessarily put side by side. But let's look at US federal debt, the treasury bond market, an enormous market, and compare its growth over time. I should have put the dates in white so you could see. On the left hand it's 1987, on the right hand it's 1999. The green bars show how much treasury debt is outstanding, and we know there's a lot of that stuff. The blue bars, by contrast, show how many interest rate swaps by what they call the total principal amount, referred to as the notional principal amount, are outstanding. This is a vast market. It's a market measured in the tens of trillions of dollars. That gives you a sense of how much is traded and how liquid it is.

Here is Allen Greenspan speaking a little bit about -- Let me see if I can get that to show again. There we go. I'm talking a little bit in terms of the derivative market. And the reason I throw this up on the screen is because Greenspan, of course, is respected, but also talking about what he sees as the importance of this to contributing to the liquidity of the markets. Some people think, when they hear about the derivatives market, that this is a gimmicky market, a market with all sorts of perils. And Greenspan being a somber kind of figure is giving a little bit of a sense of how important he and the Federal Reserve see this market as being to provide stability to our financial system.

Looking a little bit at who participates in the market. There are the dealers who provide the swaps, there are end-users like yourselves. And with apologies to Michael Douglas on the lower left, there also is some liquidity provided in the market by people who come in and gamble in the swap market. They are speculators, arbitrageurs. They are not a big part of the market but they are there.

The dealers themselves are -- You know, the Morgan Stanleys and Merrill Lynches and Goldman Sachs' and Bear Stearns' and Lehman Brothers and Solomon, Smith, Barneys of the world who basically do this as part of their trading function. The end user like CHFA, like virtually every major corporation in the world and like most big governments, are there to do hedging or balance sheet maintenance or are trying to make it so that their costs are lower. And the arbitrageurs, basically, are in there because they see an opportunity to make a bet. They will see a market that they think is out of whack. They will see something that they think is underpriced or overpriced and go in one direction or another. And that's basically what your market looks like.

A little bit on the swap dealer. Because people Bay, Gee, if this is a set of two parties and they are making a series of bets, one guy at the end of the day wins and one guy at the end of the day loses. Often people ask us that question. The truth is, the swap dealer really doesn't do

In terms of another very important role. Remember, if he is trying to balance client trades you could just say, well, why doesn't he just set you up to swap directly with someone else who wants to go in the opposite direction, assuming he could find someone who had a perfectly offsetting desire. The truth is you would not want to be exposed to the credit of the other client. So the dealer has his own credit. You are exposed only to his ability to perform on the swap, not somebody else's.

And last, all the boring stuff that has to get done in the swaps. All the calculation and bookkeeping and processing.

Now, in terms of how we get there. Why it works. Markets are supposed to be efficient but in reality they are full of inefficiencies. There are two key market inefficiencies which work to this Agency's benefit. Number one, when we compare the fixed rate on the swap to the alternative of a fixed rate on the bond there are often tremendous inefficiencies that work to your favor if you use the swap market. First and foremost, the housing bond market Cor tax-exempt housing bonds tends not to be terribly efficient. Well, long-term fixed rate swaps tend to be lower. Why is it not tremendously efficient? The main reason is that housing bonds are full of what investors see is funky call provisions. They are not really sure when these bonds are going to get called away from them so they demand a premium in terns of a higher interest rate for the call provisions which are endemic to housing bonds.

On the fixed rate swap side, fixed rate tax-exempt swaps tend to be priced, to the greatest extent, off the taxable market. The bigger ocean within which the swap market swims. Because taxable rates do not have the steepness of tax-exempt rates, as you go out the yield curve, as you get longer in maturity, you tend to have a lower rate of interest, compared to the tax-exempt market when you are in the swap market. Look on the other inefficiency, the floating rate side.

Floating bond rates, surprisingly, tend to be better than the floating swap rates. This is particularly the case in California. California floating bond rates tend to be very low for a very important reason I want to go into in the next slide. Okay, well not the next one, the one after that.

(Ms. Easton and Ms. Hawkins exited the meeting room.)

This gives you a little bit of a sense, though, in terms of how those yield curves look. The housing bond shown in green, what we call the BMA swap, the tax-exempt swap shown in red. And if you look at it, as you get further and further on the maturity spectrum out towards the 10, 15, 20, 30 year line, the greater the savings becomes in the swap market. Okay? Like I said, I mention this in terms of the relative disadvantages in the fixed rate swap market. Let me move ahead to the floating rate market.

And this is what we call the California floating rate premium. Floating rates, as we mentioned on swaps, are indexes, national averages. Okay? There's a national average which is used in the tax-exempt side called the BMA index. It's a composite of various tax-exempt floating rate bonds throughout the country. California's tax-exempt variables are chronically lower in rate than the national rates. The swaps that we do here are structured to take advantage of the differential. You pay on the underlying floating rate bonds based on the California rate, the lower rate, but you receive on the floating rate side based on the national rate, the higher rate. So you are making out well. Here is really why that -- I'm sorry. Bob.

MR. KLEIN: If you went back to the chart, the BMA chart that begins, the bond rate.

MR. SHAPIRO: Yes.

MR. KLEIN: And you took into account the California swap rate. What would that chart look like? Where would that line close?

MR. SHAPIRO: You're right. This does not take that into account. If you took the California floating rate advantage, what it is going to do is take the red line and lower it across the board. We would say that you have to imply an average somewhere in the 30, 35 basis point area. Lately that advantage has been much greater than that. But because we are looking over a long period of time you really have to think in terms of, will' a big advantage persist for a long period of time. We think it will in the range of 30, 35 basis points, arguably. Not to the extent that it has sometimes gotten. Over the last two years it has been over 100 basis points at times.

MR. KLEIN: But just looking at those scales, it would move down from a crossover in the seventh year to somewhere around the end of the third year.

MR. SHAPIRO: Yes.

MR. CARLSON: Those are not fresh numbers.

MR. SHAPIRO: And these numbers, Ken points out correctly, are not fresh. These are numbers from a few weeks ago. Rates have gone down over the last few weeks pretty sharply.

MR. KLEIN: Right.

MR. SHAPIRO: In fact, our 30 year swap, if we were to update this as of the close of business yesterday, it's closer to 5.10.

MR. KLEIN: Wow.

MR. SHAPIRO: And the 30 year bonds would be more Like 5.80. So you have seen even a bigger rally there. Let me skip back ahead to where we were.

MR. CZUKER: Peter?

MR. SHAPIRO: Yes.

MR. CZUKER: Will you address, either now or at a later point, the perception of a credit risk, either to the Sealer or to the end swap partner.

MR. SHAPIRO: Yes. I've got some stuff on the risks because it's important not to shortcut that part of it. You are looking at a different set of risks when you are looking at swaps.

A little bit on this in terms of why California trades better on the floating side. It's one of those market anomalies which is so helpful, so delicious in a lot of ways that you want to say, why is it there and will it persist. The thing that drives it are two factors. Number one, California, like many states, has a state income tax. The state income tax here is higher than the national average but it is not nearly the highest in the country.

The other thing that makes it really work is that you have got a large number of wealthy investors in the state, both in their wealth and in their numbers. So that what this tends to do is it stimulates fund companies to set up California-specific money market funds. If you have a brokerage account somewhere you probably have your cash set to sit in the money market fund. You could select to have it in a taxable money market fund or a tax-exempt money market fund nationally. But if you are a California taxpayer you might as well say, I want tax-exempt income, I want California tax-exempt income. There are a lot of people in this state and a lot of them are looking to try to, not only avoid the federal income tax, but avoid the state income tax.

So that is the big driver on this.

There is a rule that the SEC has that says, for those money market funds to call themselves a money market fund, in order for them to maintain what they call a buck a share, a dollar a share, they have to maintain a 90-day maturity or less. They are buying, sometimes, annual notes. They have got to counterbalance those with 7 day or daily floaters in big numbers to make their funds meet the rules. There is an excess demand for Cal floaters that is not being met. And frankly, you are helping. Let's look at some of the swap strategies in terms of how they work.

I have talked a lot about tax-exempt. On the taxable side there are LIBOR swaps indexed to the LIBOR index, the London InterBank Offered rate index. On the tax-exempt side they are indexed to the BMA index, the Bond Market Association Municipal Swap Index, as it is fully known. Last, there is another alternative approach, which is the use of what are called percentage of LIBOR swaps. That is, instead of indexing to the BMA tax-exempt index you can also index to a percentage of LIBOR and get special benefits for doing so.

Let's take a look first at the LIBOR swaps, okay. The muni taxable market. We mostly talked about the tax-exempt market, but because you are in the taxable market it is important to touch on this. The muni taxable market is a particularly inefficient market because the corporate bond market, which is really what you are trying to access, is built around highly credit worthy corporations who by and large will come to market with big chunks of bonds in one single maturity. G.E. will issue ten-year fixed rate bonds, $100 million, no amortization, no call provisions, simply like that. The taxable muni market has lots of little pieces. There's amortizations; it has call structures that parallel the tax-exempt market. And the taxable buyer says, what do I want with this stuff. I don't understand it, I don't get the liquidity that I'm looking for, so therefore I demand a higher rate of interest.

On the taxable floater side, muni taxable floaters tend to trade pretty even with the corporate market, basically, right around LIBOR. LIBOR is the most common taxable floating index in use in the market. The taxable floaters can be puttable, like many of the ones you have done. But as Ken mentioned, you also worked here at this Rgency, particularly, to develop the market for non-puttable floaters by going to the home loan banks. BMA swaps.

MR. KLEIN: What does that mean, non-puttable floaters at the home loan banks? We have referenced that before but --

MR. CARLSON: What we are able to do there is because of the way that the Federal Housing Finance Board that oversees the federal home loan banks has made it more attractive for the federal home loan banks to buy bonds from state housing agencies. The San Francisco federal home loan bank has gotten the message and they have -- In effect now, part of their overall investment strategy is to buy our bonds. So they are willing to buy indexed floaters from us at a spread to LIBOR that's a lot lower than the market. So we are able, then, to find a way to sell variable rate taxable bonds without having to arrange for bank liquidity to cover puts because these bonds aren't puttable. The all-in cost is a little bit higher but we think bank liquidity is a scarce resource and to be able to take, say, $600 million or $700 million of our taxable bonds each year and not have to arrange bank liquidity for it is extremely valuable to us.

MR. KLEIN: Right. That's great. I'm sorry, Peter.

MR. SHAPIRO: No, no, very much so. Looking at the BMA-based swaps. And these are on tax-exempt bonds as are the next one, the percentage of LIBOR swaps. The BMA swaps, as I mentioned, are based on the benchmark index in the tax-exempt market. As I mentioned before again, it's a national average. You do better than that national average. Again I'm saying here on this side, 30 to 50 basis points better if you are California. In terms of the way that these things move. Even though BMA might be higher they tend to move together. They won't move in perfect lock step, that spread narrows and widens. But when there are bi interest rate movements they will tend to move up and down together. It's what we call, close correspondence.

Percentage of LIBOR swaps. And this is important because this has been a big part of the Agency's strategy so far. As I said, BMA is not perfectly matched to California's tax-exempt VRDOs. So an alternative approach that we have looked at and benefitted from bigger than BMA has been to try to find a reasonable percentage of the LIBOR market. Why is this? The LIBOR market is bigger and the LIBOR yield curve as you move out longer in maturity is flatter with lower interest rates.

Now looking at it compared to non-AMT & AMT bonds. To get a better comparison we look at 64 percent of LIBOR for the non-AMT older bonds and 65 percent for the ones subject to the alternative minimum tax. I should explain them. Of course, AMT is alternative minimum tax. And again, as I mentioned, a flatter yield curve, lower interest rates on the longer end. It says it again. Look at that yield curve comparison. Now this is not bonds versus swaps, this is swaps versus swaps.

As usual, a good player with statistics changes the scale on the left hand side of the chart so it is exaggerating the effect. The red line is your BMA swap curve, the green line is your LIBOR swap curve. Look how flat that is. Again, these numbers are just slightly dated but the basic comparison still holds. The LIBOR swap curve has certain anomalies right now. It does actually go down from one to two years because short-term rates are thought of as really too high in the market right now. And it basically just flattens out like that. If you can take advantage of that 65 percent LIBOR market you are making a big savings on that. Now, that really gets to the question, if you are getting that big of savings you are also taking some kind of offsetting risk. So we want to look a little bit at what the risks are and how you manage them.

MR. KLEIN: Before you do that, why is it that the 65 percent of LIBOR doesn't differentiate between the non-AMT and AMT when the tax-exempt market does differentiate?

MR. SHAPIRO: The real reason is that the swap market has no idea what the underlying bonds look like. The bonds are in their own world.

MR. KLEIN: Right.

MR. SHAPIRO: The bond holder, if he's buying an AMT bond is saying, gee, there is a risk, I'm going to have to pay an alternative minimum tax. Where there are certain people who know they are going to have pay an alternative minimum tax. They either won't want to buy them, so you have a smaller market, or they want to be compensated for the risk by a slightly higher interest rate. We are just trying to pick whatever approximates where the AMT or non-AMT are trading. So the swap market has no idea about taxes, it is just a market that is taxable or tax-free, whoever the participants are in it.

MR. KLEIN: And the fact that it's essentially at the AMT rate. Are we benefitting from that presumption of the market or is the market priced at everything to the AMT rate?

MR. SHAPIRO: When we try to match this to a non-AMT bond we pick 64 percent of LIBOR. When we are trying to match it to AMT 65 -- So the swap market, again, there is no presumption, it's just however we choose to structure it. The good thing about the swap market is you are able to set the dial yourself. You are just seeing wherever you want it.

Looking at risk for a second. When we do a percentage of LIBOR swap the Agency is taking on a risk called tax *risk*. We'll talk a little bit about that. When swaps are done against bonds that have prepayment characteristics, as I think, Ed, you mentioned that before earlier, I guess, we are taking on a prepayment risk. And I think also another question you asked earlier, when you are doing a swap with a counter-party you are taking on a risk to their credit called counter-party *risk* or *credit risk*. When you are doing swaps against floating rate bonds you are taking on a risk of whether or not you can have the liquidity behind those floating rate bonds available, as Ken mentioned, with regard to the need to see how much liquidity needs to be purchased. And last, there is always a risk in a market which is less well-known, even though it's huge, of the swaps not being priced accurately. Of not getting the best price in the market, unlike in the bond market.

Let's talk about each one of these. Tax risk, first of all, really is the risk that munis will lose their tax exemption or their preferential tax treatment. There are a variety of ways that this has been discussed, but if you think about it, any time a bond holder buys a fixed rate bond he is taking the risk about whether or not they will always be treated the same under the federal law. When you enter into a swap where you have got floating rate bonds unhedged, or where they are swapped to a percentage of LIBOR, you are bearing that risk. And the worst possible case would be that something happened under the law where tax-exempt municipal variable rate demand obligations, floaters, suddenly started to trade flat to LIBOR. They lost their preference, okay.

What happens with a percentage of LIBOR swap would be that you would be paying based upon the current state of the tax law, which at that time would mean that you would be paying LIBOR on floaters and you would be receiving 65 percent, so you would be out a net loss of 35 percent. A very unlikely scenario. What we put up here is what we think is the most extreme scenario that is plotted by S&P, because S&P looks at this risk. I want to just compare two scenarios. Current tax structure. Again, two counter-parties. Remember the two flows? CHFA in this case we'll say is paying 5 percent fixed and receiving back a floating rate which we will call 65 percent of LIBOR.

We have got to think now of one other box. We have got to put the bonds up on the screen. What happens to the bonds is the key thing on tax risk. On the bonds you are paying, on those bonds, a bond rate, which we will say today, because these are California we are actually using real numbers, are actually trading at closer to 61 percent of LIBOR. Now the net funding cost when you do the math is the 5 percent fixed on the swap minus the differential between the two floating rates. You are receiving 65 percent of LIBOR, you are paying out 61 percent of LIBOR. Your net pickup there is that 4 percent of LIBOR. Stick with me for a second, the math may get a little complicated. LIBOR is a floating index. Today it is at roughly 6.75. So 4 percent of LIBOR would equal 27 basis points. So your bottom line all-in fixed cost right now for this transaction is 4.73 percent. Make sense? Okay?

Let's draw a line down the middle and look at what would happen in radical tax change as outlined by the S&P

risk criteria. Okay? And again, we have got the swap. The swap does not change because the swap was put in place. There is our swap. What changes is the bonds, okay. The bonds suddenly have a different tax treatment. Let's say there has been a radical reduction in federal tax rates. Let's say there's been some kind of change with regard to the treatment of other interest or dividends to make them better compared to munis. A whole lot of things that have often been discussed. Suddenly that bond rate, under the S&P risk factor, at its worst case would be 82.5 percent of LIBOR. That's the number they actually have used in their drafts on this.

What happens to the math? Okay. Now it's 5 percent fixed on the swap compared to the difference between 82.5 percent LIBOR and 65 percent LIBOR, which is 17.5 percent of LIBOR. Holding LIBOR constant at today's rate of 6.75, that 17.5 percent of LIBOR is equal to 118 basis points. So the bottom line cost is now 6.18. So that's the risk that you look at under this kind of scenario. Questions on that one? Because I know that's a lot of stuff to throw up on a slide.

Let's look at what these events could be, okay. Tax risk events. The smallest effect would be -- Let's assume the presidential race is resolved some day and Governor Bush ends up on top. And let's assume he gets a congress to march in lock step with his plan for reducing income tax rates from their current highest level of 39.6 percent down to 33 percent. In other words, a reduction in federal rates, okay.

A larger effect, however, would be if they exempted all investment income, corporate bond interest, dividends, capital gains, from the income tax. And there have been proposals to do that. People say this is pro-investment, pro-savings. At that point, why would somebody want to buy municipal bonds if they could buy all these things and they were all tax-exempt? So that would have a larger effect. The largest single effect would be a flat tax that did not exempt munis at all and everything was taxed, munis and others. The likelihood on that is really very much the least. Okay? That's on tax risk.

Prepayment risk. Ken has mentioned this already and we have talked about this so I won't belabor this. Mortgage prepayments are different from what is expected on the swap, okay. Housing prepayments are notoriously difficult to predict. The swap market, however, unlike the bond market, requires a relatively firm principal schedule. Therefore, you could get a mismatch. How do we mitigate this? Number one, this Agency has a big diversified portfolio. Number two, as Ken mentioned, the swaps have been deliberately targeted to bond maturities that have more predictable prepayments. What we call -- is it preferred amortization plan?

MR. CARLSON: Planned amortization price.

MR. SHAPIRO: Planned amortization price, thank you. And number three, the swaps can be structured to include a cancellation'optionwhere you can get out of them for free like a bond call option. There is a cost attached to that. But where there has been room to do that the Agency has taken advantage of these very intelligently.

MR. KLEIN: What is the cost of that?

MR. SHAPIRO: Ken, what have we seen? It has been a varied -- It depends upon market. It's an option. It depends upon the cost of that option. You know, I think we have seen costs that have been 20.

MR. CARLSON: It depends too, Bob, when is the option available. We have done a few callable swaps. We had some that were callable in five years, some in ten years. I think we have given up something like between 50 and 100 basis points to do that. Obviously, the five-year call costs more than the ten-year call. But we have done it for small portions of particular swaps and we might look at that some more. One of the interesting things about the.swap market,. that I think Peter may touch on here, is that unlike selling a non-callable bond where you might get an interest rate benefit from not having a call feature, in the swap market you are able to reverse anything. You just have to pay for it. But there's a solution to your problem that's there so it's a much more flexible kind of instrument than a fixed-rate bond.

MR. SHAPIRO: There's always a way out the door.

MR. CARLSON: Of course, when you want out is exactly when buying that option costs the most. But that's another subject.

CHAIRMAN WALLACE: Sure. That's why you want out.

MR. CARLSON: Yes, exactly.

MR. SHAPIRO: And it's very true if you think about it. What is the scenario where prepayments are going to have been a whole lot faster than you expected? It's because interest rates are lower. That's the time when it costs to get out of the swap.

MR. CARLSON: It's like buying fire insurance when you already smell smoke.

CHAIRMAN WALLACE: But at least there's a way out.

MR. CARLSON: Yes, yes.

MR. SHAPIRO: Yes. Looking at this issue of credit risk or counter-party risk. The way we define it is your swap provider fails to perform or defaults on his obligation. When is this likeliest to happen? Interest rates have gone way up. He is having to make that floating rate payment to offset your floating rate and suddenly he can't stand the.

burden of it anymore. Now, as I mentioned. Let me get a little closer to this. As I mentioned,. the real way the market works is that the swap provider normally trades off that risk, so he is not really living with that risk. He is managing that risk, hopefully appropriately so he is not exposed to that. But still, this is a real concern and we do a whole bunch of things to deal with it.

Because on long contracts, 30 year contracts, this is really your biggest single risk. That just when you need that swap the guy isn't there. How do you measure that risk? If you have done a $100 million swap the risk is not $100 million. The risk is what would it cost in the new market to replace the swap if the guy is no longer able to make good on it. So it's always a fraction of the total cost.

MR. CZUKER: Peter.

MR. SHAPIRO: Yes.

MR. CZUKER: Two years ago in October when the market went crazy wasn't there something similar to this that occurred? Where the counter-party risk, who everyone was laying off the swap, basically could not perform or had too many calls on it at one time.

MR. SHAPIRO: There was an issue that arose. October of '98 was a good time because you had two big events that occurred. One is, the environment leading up to that had been very placid and people had stopped focusing on risk very much and suddenly Russia defaulted on its debt. And people suddenly said, oh my God, it is not a risk-free world anymore.

Number two, and as a result of number one and risk profiles raising all across the board, a major hedge fund, Long Term Capital Management, basically failed. It was unable to make good on its obligations. Remember the slide that I showed Michael Douglas? That's right. They were right in that spot. So they were one of the people who played in the swap market, including the BMA swap market by the way, fairly significantly. When they suddenly could no longer play, rates shot up. But we did not actually see any swap providers, any of the major dealers default. We haven't had a circumstance like that.

There have been three big credit events, however that are worth thinking about. One was the failure of Drexel Burnham, when Drexel Burnham went under; the other one was Executive Life, which was certainly closer to home here; and the third was Barrons. And in each of those cases it is important to think about how they worked out. Drexel Burnham was able to, in an orderly way, take its entire swap book and trade it off to other swap dealers. There was not a single payment obligation that they had under their swaps which had even a delay due to that firm's troubles.

Executive Life was a little bit different, as you probably remember, and mostly it was not with regard to swaps but with regard to things like investments. Executive Life eventually paid. It had some payment delays but it eventually paid on its swap contracts. Barrons is a whole other example where they were really on the verge of failure and they were simply acquired wholesale by ING, the big Dutch bank.

So you have had good examples, even under extreme stress, of the market holding up pretty well. It's important to know that all but the first one we talked about, that is when Long Term Capital went under, all of the others were more individual and less systemic. When Long Term Capital had its problems it was a system-wide problem because it gave rise to all sorts of other spreads, which you probably can recall from that period of time. But the market weathered that storm pretty darn well with a little help from the Federal Reserve, perhaps.

MR. CZUKER: But how would that have affected, for example, CHFA had it had exposure at that time?

MR. SHAPIRO: CHFA's exposure on its swaps are to four major counter-parties. All of them weathered that period of time well. The next slide really talks' about, in essence, how we deal with trying to protect the Agency, even Prom those very credit worthy counter-parties. Because that is kind of an important part about it. Think about it. How do you protect yourself from even these big financial entities.

The first thing we start with is a rule that says we are only going to do business with strong counter-parties. Now that is a nice statement to make in general tenns but let's look at it. We do it with a rating criteria. That is, they have to either have a natural double-A rating or, if they can't get there, as for example, two of the senior managers, Behr Stearns and Lehman Brothers, do not have a natural double-A rating on their own. They have instead set up synthetic triple-A vehicles that is like an insurance company that is set up to achieve a triple-A rating through a structure. And those triple-A's are policed very strongly by S&P and Moody's with, basically, every day of the year surveillance on those special purpose vehicles.

Secondly, starting out with a strong counter-party is great but we want to make it so that if during the course of the contract that rating deteriorates that there is collateral which is posted. And the Agency has in all of its swap contracts put in collateral requirements that make it so that there has to be collateral posted which is equal to what is called the replacement value. If they had to go out in the market and enter into a new swap you have enough money on hand to be able to do that. That collateral value has to be continually mark-to-market. Both for the change in the value of the swap and the change in the value of the collateral.

MR. KLEIN: Peter, I interpreted part of Ed's prior question to be, in October of '98 was it that -- maybe everyone honored the swaps that they had but was there no liquidity in the swap market? You couldn't get it. Or maybe the other side of it is, there was liquidity at some price.

MR. SHAPIRO: That's right.

MR. KLEIN: And therefore they would have to put up collateral to match the then price of the swap availability.

MR. SHAPIRO: Yes, that's exactly right. The mark-to-market on the collateral became much higher. Let me give you an illustration of during October of '98, what happened.

If you remember looking at what happened to certain bonds you saw a tremendous spread to treasuries go on at that time, in part because treasuries rallied sharply and everything else went in the tank. For example, MBS spreads during that period of time, mortgage backed securities spreads, went from a level of about 80 to a level of 220 almost overnight, putting several companies that were in the mortgage business out of business. If you remember there were some major failures that occurred because the spreads just suddenly shot up.

In the swap market, those spreads did not shoot up quite as much but they also shot up. The spread, for example, in the LIBOR market between a ten-year LIBOR swap, which is the benchmark, and the ten-year treasury had been about 50 basis points before that crisis. It ended up about 90 basis points after that crisis. So you saw a sudden increase in cost. Partly due to lesser liquidity but also partly due to the fact people said, there is more risk in the world than I thought back in the days when I was marking it at 50 basis points.

BMA swaps, which are done as a percentage of LIBOR swaps, had been running at about 72 percent of LIBOR. They went up almost overnight in one week's time to 82 percent of LIBOR. The market did not disappear, it became more costly. You could market to market. You could set a collateral level. And that's the important thing in terms of protecting yourself from that risk.

MR. CZUKER: Doesn't that assume, hypothetically, that the counter-party, based on all of the demands being made at it at one time, has available resources to provide the collateral to all its clients concurrently?

MR. SHAPIRO: Yes. Very good question again. If the counter-party fails to have that collateral available you have got a termination event with regard to the swap. An ability to be able to terminate, basically on tenns which are more favorable to you than it would be if you simply went to them and said, I want to get out of the swap now just on my own whim. There was at that time some threat, or perceived threat, to certain of the major financial institutions that caused the worry which motivated Greenspan, in part, to increase liquidity in the market at that time.

It was indicated very clearly, frankly, in stock prices at that time. I remember looking at Merrill Lynch's stock price right around then when it basically had come down from $100 to about $40 a share, reflecting perceived risk in a huge financial company like that. Needless to say it has recouped all and more of that value. But at that time people thought, my God, there is a chance that it could go under.

Looking at the weaker credits, however. Take for example, again, Lehman and Behr, which are the two that do not have a strong credit. Merrill's credit is pretty darn strong. Lehman and Behr, none of the transactions that have been done have been with Lehman Brothers, per se, or with Behr Stearns, per se. They have been done with Lehman Brothers Derivative Products, which is their triple-A subsidiary, which is fully collateralized at all times. In order for that to exist, S&P and Moody's insist that it be continually collateralized and re-collateralized every day in the full amount of all of its transactions. That's how it keeps the triple-A. The same thing with Behr Stearns' entity. Stan, help me out. We're dealing with Behr Stearns Trading Risk Management or Behr Stearns Financial Products? I'm trying to remember.

MR. DIRKS: Financial Products.

MR. SHAPIRO: Financial Products, okay. Because they have two entities there.

MR. SHERWOOD: Peter, I was just going to say I remember that period. And of course, Lehman Brothers was definitely, a lot of rumors were in the marketplace and their stock went from $70-$80 down to $25 a share.

MR. SHAPIRO: You're right.

MR. SHERWOOD: And they were very much on the ropes just because of rumors, quite frankly.

MR. SHAPIRO: That's exactly right.

MR. SHERWOOD: Now, with situations like that, historical data to work with, Ken, does the portfolio do any stress analysis or look at the performance of the portfolio during those periods of times under some worst case scenarios?

MR. SHAPIRO: The way that the Lehman works, it's interesting. Just to give you a little of the detail on it. Lehman gets what is called a triple-A-t from S&P and a triple-A from Moody's. What that little T means on that S&P rating is that Lehman's structure, similar to one of Behr's structures and similar to the structures used by Solomon, Swapco, Morgan Stanley and some others, requires that if there were ever a failure to post collateral from the parent company into the triple-A special purpose company that there would be a requirement that the entire company, that is the triple-A company, terminate immediately all of its transactions and pay out to all of its counter-parties the collateral that it has on hand, which would be, basically, the collateral to the value'of the contracts.

S&P says in its risk criteria that you have to look at the fact that you have got the potential for a termination. like that. That it may occur in a fast-moving market and that you should reserve a small amount for the movement in the market during that period of time. Ken, I think --

MR. CARLSON: Right. It was like two percent or something like that. It was small.

MR. SHAPIRO: It was less than two percent.

MR. CARLSON: It was something that, for us, compared to the other reserves that S&P imposes on us, it was deminimus as far as what kind of a risk that was. Because we basically are going to get the replacement value of the swaps given if that entity has to terminate. It's all just a matter of timing risk between the time you get your money back and you are able to enter into a new swap to replace it.

MR. SHAPIRO: The triple-A entity itself is a big pool of collateral. That's basically what it is.

MR. KLEIN: Peter, I guess ultimately we go down this track and say, S&P is looking at our practices and our staff is and you are and we do the best job we can. There ultimately at some point, in some calamity, is some risk. And we have to say to ourselves, the public policy benefit we are achieving, and the fact that we have S&P and these other oversight agencies that are looking at our performance and concur that we are not taking undue risks, in the balancing of this we believe we are taking a current nominal risk with known sets of facts. But out there, there is some set of facts that could create a problem.

And if you get to that point then you say, have we diversified between our different swap providers so we have a limit on the aggregation of risk with any one of them. And if you look at the aggregated risk with any one of these swap providers, how does that compare to our $600 million or $700 million of equity in the Housing Finance Agency.

MR. SHAPIRO: I think all this is exactly right. That is, it is not a world with zero risk.

MR. KLEIN: Right.

MR. SHAPIRO: The question is, is it a manageable risk?

MR. KLEIN: Right.

MR. SHAPIRO: And all of these risks, there should be a way, as we do here, to identify and manage them.

MR. KLEIN: And do we have a -- What is our current Limit with any one swap provider?

MR. CARLSON: We haven't set a limit like that yet and I think that, at least so far, we feel comfortable with not imposing limits like that, given the ratings of the swap providers.

MR. KLEIN: And what is the quantifiable risk? Assuming they were all with one provider, at the level of swaps we are doing right now is there a dollar value? Would it be a $100 million hit to our equity? Or is it a $200 million exposure to our equity? Realizing this is an extreme case none of us expects to happen and believing that it appears we have a very solid mitigated risk philosophy.

MR. SHAPIRO: You would have to think about it in terms of the directional movement of an interest rate because you don't want to look at the -- When Ken puts up the total size of the swap, that's what we refer to as the notional principal value. That's the legal term for it. And as it sounds, it's notional., It's basically the multiplier applied. There is never that amount of money that changes hands. It's only that amount multiplied, times the relevant interest rates.

What we look at instead is we say, all right, what if there were a 200 basis point movement in interest rates or a 300 basis point movement in interest rates. You take that movement, multiply it times that notional principal amount, times the remaining number of years and the present value of that. You have to say, how big a number would that get to with any counter-party. There's a way of basically being able to say how much stress do we want to take at certain rating levels and it really ought to be rating-sensitive. This is similar to what S&P does when they look at their risk criteria. When they look at it -- With a triple-A counter-party, Ken, I think they apply a zero --

MR. CARLSON: Right.

MR. SHAPIRO: -- or an infinite threshold.

MR. KLEIN: What is our total tax-exempt amount hedged right now, or by swaps?

MR. CARLSON: Tax exempt?

MR. KLEIN: Yes.

MR. CARLSON: As opposed to taxable?

MR. KLEIN: Right.

MR. CARLSON: Okay.

MR. KLEIN: Well, what is the combined total?

MR. CARLSON: The combined is $1.28 billion.

MR. KLEIN: So if you were to take a 15 point hit, present value, that's $180 million. And we have equity of somewhere in the range of $700 million.

MR. CARLSON: Certainly. Certainly, yes.

MR. KLEIN: What I'm saying is, if everything else tailed and all of our swap providers failed, other than the tact we have to deal with it on a liquidity basis, we have the asset level that would allow us to deal with this kind of a problem.

MR. CARLSON: Right. It's not going to take the Agency down. Absolutely.

MR. SHAPIRO: And the other thing to remember is, this would take require a wholesale failure of basically the entire American financial system for that to occur.

MR. KLEIN: A housing crisis would follow and maybe we wouldn't have as much to --

MR. SHAPIRO: There might be some other things going on.

MR. CARLSON: Your worst problem would not be changes in our equity.

MR. SHAPIRO: There might be some other things to deal with, yes. One last thing on counter-party risk. And these sometime seem like legal niceties. We put in there always with CHFA, and this is one of the great things about dealing with CHFA. Because this is such a desirable issuer, because this is such a well-thought of agency and a well-thought of counter-party, we were able to get provisions in your swap documents which the dealers would never give to anybody normally coming at them. We have been able to put in as it says here, asymmetrical provisions to the benefit of the Agency. In fact, Stan, who has worked on a lot of the documentation on this, at one point turned to me on a phone call and he said, why are we asking for such a provision.

Why are we asking for such a tough provision from the other guy. And the real answer is, because we can. Because we can basically get better provisions out of them then we are going to grant to them. And this is the ideal situation to be in.

MR. CARLSON: And this has been one of the real benefits of having Peter and his firm be our advisors. They understood this and have negotiated on our behalf for these kinds of provisions, which probably no other municipal counter-party is getting. Between that and the pricing it's been the real value of having them involved.

MR. SHAPIRO: Bob, as you would know, because we have done a lot of work with Fannie Mae and Freddie Mac, big triple-A federal entities, we had a sense of how far we could push.

MR. KLEIN: Right.

MR. SHAPIRO: And as I put down here, the counter-party risk approach really is state of the art in terms of what you have got there. Liquidity rollover risk. Let me go through these quickly because I think the Board knows about these things elsewhere. That is, what if you can't roll over the liquidity facility on the underlying bonds. This is not a swap risk because it's really a variable rate bond risk because you need to have puts on most variable rates. Not that one sold to the federal home loan bank, of course --

The way in which this could happen would be, what if there is a general credit crunch where you cannot get liquidity facilities, a systemic banking problem or an Agency credit problem where they simply turned up their noses at the Agency. And there are ways to mitigate that which include conversion of the bonds from a puttable form to a non-puttable form, like auction rate bonds. Which some of your bonds are currently in that form. The first one I said wrong, conversion to index floaters, which is a possibility. Although, again, there's some expense involved. And last, of course, to able to call bonds. The fact is the Agency has the ability to be able to, within certain parameters, to be able to direct calls to certain bonds.

And again, just to emphasize, the Agency has taken a very proactive approach towards the liquidity market. Going out, educating the liquidity providers to this Agency's need, and it has been very successful at it so far.

MR. CARLSON: And you might notice in one of the reports I filed with you we recently advertised for new liquidity banks. We got $750 million worth of proposals from six different banks and we are really pleased to be able to diversify some of our liquidity rollover risk. I think in 2001 we will have two new banks involved. We already have ten different banks involved plus the State Teachers Retirement System, which is one of our biggest providers.

MR. KLEIN: Who are the banks that provide us this liquid?

MR. CARLSON: The biggest ones are European banks, Commerzbank is the biggest as far as providing us liquidity. They are backing now, I think, about $340 million of our bonds. Then Westdeutsche Landesbank is next, I think, and after that KBC Bank, which is a Belgian bank. We are doing a lot of business now with Landesbank Hessen-Thuringen, known as Helleba (phonetic), which is obviously a German bank. Those have been the real market makers in this business. We have lesser amounts with some American banks such as Morgan Guaranty, Bank of America and State Street Bank.

MR. SHAPIRO: The ones that you have had backing your bonds have been the banks that have traded best currently in the municipal market. And that's a moving target.

MR. CARLSON: Another big player has been Bayerische Landesbank, another triple-A bank.

MR. SHAPIRO: If you had looked at it 10 years ago you would have seen a huge number of Japanese banks in this business; 20 years ago you would have seen more American banks. It seems to -- The market evolves. Facilities, Ken, are about how long at this point?

MR. CARLSON: We have facilities as long as five year agreements. Helleba, for our multifamily program, has given us five year agreements, which we really appreciated.

We are about to -- The next transaction we were hoping to do with Lloyds Bank, the British bank. They have offered us a five-year agreement at a reasonable price so we are going to try to take advantage of that. I should say, since I'm saying that, the other bank that we are thinking of doing business'with is the Bank of New York who has offered us extremely attractive pricing for a facility that would have to roll every year. We are taking a good look at that. We may wish to try to take advantage of that.

*MR,* SHAPIRO: The last risk I wanted to touch on is just mis-pricing. And the important thing is, you can look up treasury prices, stock prices, even corporate bond prices, in the Wall Street Journal. If you had a Bloomberg terminal you could look up even more than that. But it's hard to look up some swap pricing, particularly BMA swap pricing. You just simply have a data availability problem because the eontracts are private contracts, they are not in a broad narket, even though it's very big.

In terms of trying to find if the price on a swap vorks well. Sometimes agencies will try to call a competitor of their swap provider and say, is this price fair. By and Large we find that doesn't work well because you're calling either somebody who is a friend or an enemy, by and large, of your swap provider. And they may want to think, you scratch my back, I'll scratch your back, or they may want to think, gee, let me skewer this *guy.* You need to get accurate information and that doesn't really work well. So this is really, in part, where we come in. I have talked about strategy and documentation and risk mitigation and all those things but a big part of what we do is try to maintain a very big database.

MR. KLEIN: And on the liquidity side. The difference between the pricing of five year liquidity or put capacity versus one year. How big is that spread?

MR. CARLSON: We look at different proposals. We have seen --

MR. KLEIN: You were saying Bank of New York --

MR. CARLSON: Right.

MR. KLEIN: -- has a proposal in front *of* you.

MR. CARLSON: Right.

MR. KLEIN: How much would you save?

MR. CARLSON: We would save six or seven basis points.

MR. KLEIN: Out of a total of what?

MR. CARLSON: The Bank of New York, I think the price that they offered us was nine basis points.

MR. KLEIN: Instead of 15.

MR. CARLSON: As compared to 15, 16, 17. We have had three to five year agreements bid as high as something over 20 as well. Some liquidity banks are interested in whether our bonds are insured or not and they give us a break in pricing if they are insured. So that has also been a factor as well.

MR. KLEIN: But having a five year agreement is worth a tremendous amount in the situations that Ed was alluding to where liquidity becomes a real premium.

MR. CARLSON: Certainly. Certainly, yes. And we have been pleased to be able to get some agreements and would always try to do that if the price were right.

MR. KLEIN: Right.

MR. SHAPIRO: This was just a last thing in terms of where we get our price data from. We maintain a very large database that we keep a lot of investment in technology( to make sure that we can properly plot pricing. When we do a swap pricing, it's one thing that we have worked with Ken a lot on and his staff, to make sure that the dealer is accurately calculating based upon the market inputs. From time to time they will make a goof. Somehow it seems to be the case that 99 percent of the time that goof works always in one direction, so we are happy to be able to catch that.

And last of all, we do a lot in terms of what are called fairness opinions on swap pricing. That's basically the show.

MR. CARLSON: Back to the pricing for a minute. I think when these kinds of products are first shown to municipal clients the notion was that the bankers would come to the issuer and say, look, we can save you 50 basis points, not telling you that they were really going to save 100 basis points and keep 50 basis points. So what Swap Financial Group has been able to do is model up the whole thing, and then what we have done is agreed with the bankers on what their spread ought to be over the midpoint of the market. They lock it in, make sure that is what they are getting as the spread, and the deal is done. All that has been negotiated up front and that has worked very well. We have limited their profits quite a bit on a per dollar basis but the fact that our deals are so large is giving them, what we think at least, is fair compensation.

MR. SHAPIRO: Ken, I think it's helped also in that it removes kind of a suspense element from the dealer's mind.

MR. CARLSON: Right.

MR. SHAPIRO: They are less likely to try to play a game to try to hide a profit or anything like that.

MR. CARLSON: And I don't need the stress either.

CHAIRMAN WALLACE: Well, that was terrific.

MR. KLEIN: Tremendous, yes.

MR. SHAPIRO: Thanks.

CHAIRMAN WALLACE: I know some of us understood it better than others but at least we have got a foundation for all of us, or most of us now. Very worthwhile.

MR. SHAPIRO: If there are further questions that come up, if we can answer in any way, telephone, e-mail, whatever is helpful to you. Please let us know. And again, it's a different market; it is not a fundamentally incomprehensible market. It is capable of being understood.

CHAIRMAN WALLACE: Easy for you to say, Peter. It was very helpful, though. But we have a lot of confidence in Ken, obviously. And it sounds like, if you had to write us up, we're doing pretty well.

MR. SHAPIRO: We don't know anyone who is doing any better anywhere.

CHAIRMAN WALLACE: Well that's a good recommendation to end on unless I hear other questions.

MS. PARKER: Peter, and that's an environment that is outside housing too.

MR. SHAPIRO: Yes, very much. It is an environment that includes other government agencies, corporations. And some real big ones like Fannies and Freddies and the like.

CHAIRMAN WALLACE: Any further questions from the Board or the audience? Hearing and seeing none, thank you all very much for your indulgence. We are out of here at 2:18. Thank you.

(The meeting adjourned at 2:18 p.m.)

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## CERTIFICATION AND
## DECLARATION OF TRANSCRIBER

I, Ramona Cota, a duly designated transcriber do hereby declare and certify, under penalty of perjury, that I have transcribed (3) three tapes in number and this covers a total of pages 1 through 175, and which recording was duly recorded at Millbrae, California, in the matter of the Board of Directors Public Meeting of the California Housing Finance Agency on the 7th day of December, 2000, and that the foregoing pages constitute a true, complete and accurate transcript of the aforementioned tapes, to the best of my ability.

Dated this 27th day of December, 2000, at Sacramento County, California.

Ramona Cota, Official Transcriber

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# CALIFORNIA HOUSING FINANCE AGENCY
## Loan Modification
## Final Commitment
## Breezewood Village Apartments
## CHFA Ln. # 98-032-S

## SUMMARY:

This is a quest to modify the terms and conditions of the permanent loan on Breezewood Village Apartments, a proposed 122-unit senior apartment project located at 12600 Breezewood Drive in La Mirada. The CHFA Board of Directors previously approved the existing loan structure shown below on January 14, 1999, however, due to additional planning requirements by the City of La Mirada and resulting costs, an increase to the tax-exempt bridge loan is required.

## LOAN TERMS:

| | Existine Terms | Modified Terms |
|---|---|---|
| 1st Mortgage Amount: | $5,250,000 | $5,250,000 |
| Interest Rate: | 6.05% | 6.05% |
| Term: | 35 year fully amortized | 35 year fully amortized. |
| Financing: | Tax-Exempt | Tax-Exempt |
| 2ND Mortgage Amount: (Bridge) | $2,300,000 | $3,400,000 |
| Interest Rate: | 6.05% | 6.05% |
| Term: | 1 year | 1 year |

## PROJECT BACKGROUND

A Bridge Loan increase is required in order to satisfy four percent tax credit's 50% Test requirement due to increase in costs based on the difficulties of a) acquiring 12 separate parcels and exercising eminent domain powers in some cases, b) obtaining the adjacent owners and nearby neighbors approval to vacate the alley, c) relocating 73 households, d) demolishing all 12 structures and e) vacating Breezewood Drive and relocating the utilities contained in the road were far more extensive than the City of La Mirada or the borrower ever imagined. Given the nature of this project, the Redevelopment Agency initially contributed a $6.4 million grant and subsequently, a $847,000 loan, in their effort to bring this 122-unit senior citizen development to fruition. The borrower has commenced off-site construction and expects to close the construction loan in late January 2001.

## SITE AND PROJECT :

### A. Project Status:

The project is expected to *start* construction in the first quarter of 2001.

### B. Site Design:

The site is currently zoned R-3, however, the zoning has been amended to Planned Unit Development (PUD). The City of La Mirada has committed in writing *to:* a density bonus; a reduction in setback requirements, and financial assistance as noted above.

The site is a four-acre relatively flat, rectangular piece of property made up of 12 contiguous parcels with frontage on Imperial Highway. Two residential street dead-end at the site; Grayville will provide east/west vehicular access to the project and Breezewood Drive has been vacated. The borrower intends to have the primary access to the project be on Grayville. There were several small apartment buildings and a converted motel on the site, which have been razed to accommodate the proposed development. The site is elevated above the adjacent Green Hills Shopping Center to the west.

The project includes 122 units in 22 one- and two-story buildings, plus a central clubhouse and a pool. The majority of the units will be in single-story buildings. There will be only 25 second-story units in the project. The unit mix will include: 104 one-bedroom, one-bath units (540 sq. ft.); 16 two-bedroom, one-bath units (800 sq. ft.) and 2 two-bedroom two-bath units (900 sq. ft.) for the onsite manager and the maintenance person. Residency will be restricted *to* senior citizens age 62 and over. Project amenities include a laundry room, an enlarged community kitchen in the community building, which will provide Meals-On-Wheels Service, and a tot lot for visiting children.

### C. Project Location:

The project is located *at* the intersection of Imperial Highway and Breezewood Drive, onequarter mile east of Santa Gertrudes Avenue. Imperial Highway is a major east/west artery stretching across both Los Angeles and Orange counties. Santa Gertrudes is a significant north/south roadway linking La Mirada to Whittier. The intersection of

Imperial and Breezewood does not have a traffic signal, but there are sidewalks along Imperial providing safe access to a crosswalk at a signal at Santa Gertrudes Avenue.

Single family neighborhoods are located to the east and the south of the project. A combination of single-family and small-scale multifamily housing is located to the north. To the east of the subject property is the Green Hills Shopping Center, which includes a Marshall's discount department store and several convenience retailers and restaurants. A new Rite Aid pharmacy is currently under construction on the southeast comer of Imperial and Santa Gertrudes Avenue. There are two other shopping centers located within onequarter mile of the subject. They have several major anchor tenants including: Ralph's Supermarket, Blockbuster Video and SavOn Pharmacy.

The La Mirada Senior Nutrition Center is located one mile west of the project at the Kling Community Center. The city is proposing a new community center and senior citizens center, which will be, located one and one-half miles from the subject. The proposed building will include a multi-purpose room with a small catering kitchen, a craft room, a game room, a library/reading room, a movie/TV, several meeting room, a first aid and nurses exam room and an office area.

The nearest hospital is four and one-half miles west of the project. Several medical offices are located within one mile of the project and the non-emergency Specialty Hospital is one and one-half miles away. La Mirada contracts with Los Angeles County to provide fire and emergency medical services. The closest fire and paramedic station is located on La Mirada Boulevard, adjacent to La Mirada City Hall, one and one-half miles from the project. La Mirada Library is one and one-half miles from the project.

There is no regularly scheduled bus service in La Mirada. However, La Mirada Transit provides three types of service: immediate response for riders ready for pick-up; advance call for riders who want to reserve a pick-up time; and subscription service for riders who need a ride on a regularly scheduled basis. The cost is $0.50 for senior citizens.

***OCCUPANCY* RESTRICTION§:**

| | |
|---|---|
| CHFA: | 20% of the units (24) are restricted to 50% or less of median income |
| TCAC: | 100% of the units (122) are restricted to 60% or less of median income. |

## DEVELOPMENT TEAM:

### A. Borrower's profile

. The borrower is Breezewood Village Senior Housing Limited Partnership, a California limited partnership. The developer and managing general partner is Thomas Safran, the president of Thomas Safran & Associates. Thomas Safran & Associates has developed over 2,500 units of rental housing in California. They currently own, as general partners, approximately 1,600 units, of which they manage over 1,100 units. They manage several projects in the CHFA portfolio.

The initial limited partner, who will become the managing general partner upon completion of construction, is Housing Corporation of America ("HCA"), a Utah non-profit public benefit corporation. HCA was founded in 1988 to preserve and provide affordable housing and to improve the communities where these projects are located. Ronald H. Olson and Carol Cromar, the President and Vice-President of HCA have 15 years of experience managing affordable housing.

### B. Contractor

The contractor is ICON Builders from Santa Monica. ICON Builders began in 1984 and is a subsidiary of Bezaire Electric, which was established in 1945 in California. They have been the general contractors on four publicly funded multifamily projects, including the CHFA financed Lark Ellen project. Kelly Sands is the contractor assigned to this project and he has managed ICON Builders since its inception. ICON Builders has a staff of 50 employees and operates in two states.

### C. Architect

John Oliver Cotton F.A.I.A., The Architecture Group LLC is the architect on this project. He has been in business since 1964 and has developed an estimated 2,800-3,000 units in approximately 30 projects. Mr. Cotton has been the architect on 10 projects for Thomas Safran & Associates, several of which are part of the CHFA portfolio. He specializes in multifamily and affordable housing throughout California. Mr. Cotton completes the design work, and contracts out other phases of the architecture work.

### D. Management Agent

Thomas Safran & Associates, Inc. will manage the project.

# Project Summary

Loan Modification

Date: 26-Dec-00

## Project Profile:

**Project:** Breezewood Village
**Location:** 12600 Breezewood Drive
La Mirada
**County/Zip:** L.A. 90638
**Borrower:** Breezewood Village LP.
**GP:** Thomas Safran
**LP:** Housing Corporation of America

**Program:** Tax Exempt
**CHFA #:** 98-032-S

**Appraiser:** Ted Kressner
Kressner & Associates
**Cap Rate:** 8.50%
**Market:** $ 8,600,000
**Income:** $ 8,650,000
**Final Value:** $ 8,650,000

**LTC/LTV:**
**Loan/Cost** 30.2%
**Loan/Value** 60.7%

## Project Description:

| | |
|---|---|
| Units | 122 |
| Handicap Units | 7 |
| Bldge Type | New Const. |
| Buildings | 19 |
| Stories | 1 & 2 |
| Gross Sq Ft | 82,280 |
| Land Sq Ft | 174,200 |
| Units/Acre | 31 |
| Total Parking | 120 |
| Covered Parking | 0 |

## Financing Summary:

| | Amount | Per unit | Rate | Term |
|---|---|---|---|---|
| CHFA First Mortgage | $5,250,000 | $43,033 | 6.05% | 35 |
| Redev Agency Grant | $6,400,000 | $52,459 | 0.00% | 35 |
| City of Industry Funds | $528,714 | | | |
| Redev Agency Loan | $847,064 | | | |
| Income from Operations | $46,000 | $377 | | |
| Tax Credit Equity | $3,693,238 | $30,272 | | |
| Deferred Developer Fee | $594,076 | $4,869 | | |
| CHFA Bridge | $3,400,000 | $27,869 | 6.05% | 1 |
| CHFA HAT | $0 | $0 | 0.00% | |

## Unit Mix:

| Type | Size | Number | AMI | Rent | Max Income |
|---|---|---|---|---|---|
| 1 BR | 570 | 21 | 50% CHFA | $452 | $20,850 |
| 2 BR | 800 | 3 | 50% CHFA | $542 | $23,450 |
| Manager | 900 | 2 | N/A | $542 | $0 |
| 1 BR | 570 | 83 | 60% TCAC | $550 | $25,020 |
| 2 BR | 800 | 13 | 60% TCAC | $659 | $28,140 |
| | | 122 | | | |

## Fees, Escrows and Reserves:

| Escrows | Basis of Requirements | | Amount | Security |
|---|---|---|---|---|
| Commitment Fee | 1.00% | of Loan Amount | $86,500 | Cash |
| Finance Fee | 1.00% | of Loan Amount | $86,500 | Cash |
| Bond Origination Guarantee | 1.00% | of Loan Amount | $86,500 | Letter of Credii |
| Rent Up Account | 15.00% | of Gross Income | $120.202 | Letter of Credit |
| Operating Expense Reserve | 13.00% | of Gross Income | $100,000 | Letter of Credit |
| Marketing | 10.00% | of Gross Income | $80,135 | Letter of Credit |
| Annual Replacement Reserve Deposit | 0.60% | of Hard Costs | $38,170 | Operations |

## Sources and Uses — Breezewood Village

### SOURCES:

| ***Name of Lender / Source*** | Amount | **$ per unit** |
|---|---|---|
| CHFA First Mortgage | 5,250,000 | 43,033 |
| CHFA Bridge | 0 | 0 |
| CHFA HAT | 0 | 0 |
| Redev Agency Grant | 6,400,000 | 52,459 |
| City of Industry Funds | 528,714 | |
| Redev Agency Loan | 847,064 | |
| Income from Operations | 46,000 | |
| Total Institutional Financing | 13,071,778 | 107,146 |
| | | |
| ***Equity** Financing* | | |
| Tax Credits | 3,693,238 | 30,272 |
| Deferred Developer Equity | 594,076 | 4,869 |
| Total Equity Financing | 4,287,314 | 35,142 |
| | | |
| TOTAL SOURCES | 17,359,092 | 142,288 |

### USES:

| | | |
|---|---|---|
| Acquisition | 5,891,067 | 48,287 |
| Rehabilitation | 0 | 0 |
| New Construction | 6,818,615 | 55,890 |
| Architectual Fees | 377,500 | 3,094 |
| Survey and Engineering | 65,000 | 533 |
| Const. Loan Interest & Fees | 1,018,296 | 0,347 |
| Permanent Financing | 398,271 | 3,265 |
| Legal Fees | 85,000 | 697 |
| Reserves | 300,337 | 2,462 |
| Contract Costs | 11,000 | 90 |
| Construction Contingency | 458,213 | 3,756 |
| Local Fees | 224,194 | 1,838 |
| TCAC/Other Costs | 611,599 | 5,013 |
| PROJECT **COSTS** | 16,259,092 | 133,271 |
| | | |
| Developer Overhead/Profit | 1,100,000 | 9,016 |
| Consultant/Processing Agent | 0 | 0 |
| | | |
| TOTAL USES | 17,359,092 | 142,288 |

# Annual Operating Budget Breezewood Village

| | | $ per unit |
|---|---|---|
| **INCOME:** | | |
| Total Rental Income | 797,028 | 6,533 |
| Laundry | 4,319 | 35 |
| Other Income | 0 | - |
| Commercial/Retail | 0 | - |
| Gross Potential Income (GPI) | 801,347 | 6,568 |
| Less: | | |
| Vacancy Loss | 40,067 | 328 |
| Total Net Revenue | 761,279 | 6,240 |
| **EXPENSES:** | | |
| Payroll | 72,800 | 597 |
| Administrative | 74,674 | 612 |
| Utilities | 102,855 | 843 |
| Operating and Maintenance | 56,100 | 460 |
| Insurance and Business Taxes | 29,219 | 239 |
| Taxes and Assessments | 3,500 | 29 |
| Reserve for Replacement Deposits | 38,170 | 313 |
| Subtotal Operating Expenses | 377,318 | 3,093 |
| Financial Expenses | | |
| Mortgage Payments (1st loan) | 361,337 | 2,962 |
| Total Financial | 361,337 | 2,962 |
| Total Project Expenses | 738,656 | 6,055 |

# Cash Flow

## Breezewood Village CHFA # 98-032-S

| RENTAL INCOME | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Market Rent Increase* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* |
| Market Rents | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Affordable Rents | 797,028 | 816,954 | 837,378 | 858,312 | 879,770 | 901,764 | 924,308 | 947,416 | 971,101 | 995,379 |
| TOTAL RENTAL INCOME | 797,028 | 816,954 | 837,378 | 858,312 | 879,770 | 901,764 | 924,308 | 947,416 | 971,101 | 995,379 |
| **OTHER INCOME** | | | | | | | | | | |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Laundry | 4,319 | 4,427 | 4,537 | 4,651 | 4,767 | 4,886 | 5,008 | 5,134 | 5,262 | 5,394 |
| Other Income | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| TOTAL OTHER INCOME | 4,319 | 4,427 | 4,537 | 4,651 | 4,767 | 4,886 | 5,008 | 5,134 | 5,262 | 5,394 |
| **GROSS INCOME** | 801,347 | 821,380 | 841,915 | 862,963 | 884,537 | 906,650 | 929,317 | 952,550 | 976,363 | 1,000,772 |
| *Vacancy Rate : Market* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* |
| *Vacancy Rate : Affordable* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| Less: Vacancy Loss | 40,067 | 41,069 | 42,096 | 43,148 | 44,227 | 45,333 | 46,466 | 47,627 | 48,818 | 50,039 |
| EFFECTIVE GROSS INCOME | 761,279 | 780,311 | 799,819 | 819,815 | 840,310 | 861,318 | 882,851 | 904,922 | 927,545 | 950,734 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| *Annual Expense Increase* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* |
| Expenses | 335,648 | 349,074 | 363,037 | 377,558 | 392,660 | 408,367 | 424,702 | 441,690 | 459,357 | 477,731 |
| Replacement Reserve | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| Taxes and Assessments | 3,500 | 3,570 | 3,641 | 3,714 | 3,789 | 3,864 | 3,942 | 4,020 | 4,101 | 4,183 |
| TOTAL EXPENSES | 377,318 | 390,814 | 404,848 | 419,443 | 434,619 | 450,402 | 466,813 | 483,880 | 501,628 | 520,085 |
| **NET OPERATING INCOME** | 383,961 | 389,497 | 394,971 | 400,372 | 405,691 | 410,916 | 416,037 | 421,042 | 425,917 | 430,649 |
| **DEBT SERVICE** | | | | | | | | | | |
| CHFA - 1st Mortgage | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 |
| CHFA - Bridge Loan | 205,700 | 3,400,571 | 0 | 0 | 0 | | | | | |
| CHFA - HAT Loan | 0 | 0 | 0 | 0 | 0 | | | | | |
| CASH FLOW after debt service | 22,624 | 28,160 | 33,633 | 39,035 | 44,353 | 49,579 | 54,700 | 59,704 | 64,579 | 69,312 |
| DEBT COVERAGE RATIO | 1.06 | 1.08 | 1.09 | 1.11 | 1.12 | 1.14 | 1.15 | 1.17 | 1.18 | 1.19 |

## Cash Flow

| RENTAL INCOME | Year 11 | Year 12 | Year 13 | Year 14 | Year 15 | Year 16 | Year 17 | Year 18 | Year 19 | Year 20 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Market Rent Increase* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* |
| Market Rents | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Affordable Rents | 1,020,263 | 1,045,770 | 1,071,914 | 1,098,712 | 1,126,180 | 1,154,334 | 1,183,193 | 1,212,772 | 1,243,092 | 1,274,169 |
| **TOTAL RENTAL INCOME** | 1,020,263 | 1,045,770 | 1,071,914 | 1,098,712 | 1,126,180 | 1,154,334 | 1,183,193 | 1,212,772 | 1,243,092 | 1,274,169 |
| **OTHER INCOME** | | | | | | | | | | |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Laundry | 5,528 | 5,667 | 5,808 | 5,954 | 6,102 | 6,255 | 6,411 | 6,572 | 6,736 | 6,904 |
| Other Income | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **TOTAL OTHER INCOME** | 5,528 | 5,667 | 5,808 | 5,954 | 6,102 | 6,255 | 6,411 | 6,572 | 6,736 | 6,904 |
| **GROSS INCOME** | 1,025,792 | 1,051,436 | 1,077,722 | 1,104,665 | 1,132,282 | 1,160,589 | 1,189,604 | 1,219,344 | 1,249,828 | 1,281,073 |
| *Vacancy Rate : Market* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* |
| *Vacancy Rate : Affordable* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| Less: Vacancy Loss | 51,290 | 52,572 | 53,886 | 55,233 | 56,614 | 58,029 | 59,480 | 60,967 | 62,491 | 64,054 |
| **EFFECTIVE GROSS INCOME** | 974,502 | 998,865 | 1,023,836 | 1,049,432 | 1,075,668 | 1,102,560 | 1,130,124 | 1,158,377 | 1,187,336 | 1,217,020 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| *Annual Expense Increase* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* |
| Expenses | 496,841 | 516,714 | 537,383 | 558,878 | 581,233 | 604,483 | 628,662 | 653,809 | 679,961 | 707,159 |
| Replacement Reserve | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| Taxes and Assessments | 4,266 | 4,352 | 4,439 | 4,528 | 4,618 | 4,711 | 4,805 | 4,901 | 4,999 | 5,099 |
| **TOTAL EXPENSES** | 539,278 | 559,237 | 579,992 | 601,576 | 624,022 | 647,364 | 671,637 | 696,880 | 723,130 | 750,429 |
| **NET OPERATING INCOME** | 435,224 | 439,628 | 443,844 | 447,856 | 451,646 | 455,196 | 458,486 | 461,497 | 464,206 | 466,591 |
| **DEBT SERVICE** | | | | | | | | | | |
| CHFA - 1st Mortgage | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 |
| CHFA - Bridge Loan | | | | | | | | | | |
| CHFA - HAT Loan | | | | | | | | | | |
| **CASH FLOW after debt service** | 73,887 | 78,291 | 82,507 | 86,518 | 90,309 | 93,859 | 97,149 | 100,160 | 102,869 | 105,254 |
| **DEBT COVERAGE RATIO** | 1.20 | 1.22 | 1.23 | 1.24 | 1.25 | 1.26 | 1.27 | 1.28 | 1.28 | 1.29 |

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# Cash Flow

| RENTAL INCOME | Year 21 | Year 22 | Year 23 | Year 24 | Year 25 | Year 26 | Year 27 | Year 28 | Year 29 | Year 30 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Market Rent Increase* | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Market Rents | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| *Affordable Rent Increase* | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Affordable Rents | 1,306,023 | 1,338,674 | 1,372,141 | 1,406,444 | 1,441,605 | 1,477,645 | 1,514,586 | 1,552,451 | 1,591,262 | 1,631,044 |
| **TOTAL RENTAL INCOME** | 1,306,023 | 1,338,674 | 1,372,141 | 1,406,444 | 1,441,605 | 1,477,645 | 1,514,587 | 1,552,451 | 1,591,262 | 1,631,044 |
| **OTHER INCOME** | | | | | | | | | | |
| *Other Income Increase* | 2.50% | 2.50% | [illegible]0% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Laundry | 7,077 | 7,254 | [illegible]35 | 7,621 | 7,812 | 8,007 | 8,207 | 8,412 | 8,622 | 8,838 |
| Other Income | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **TOTAL OTHER INCOME** | 7,077 | 7,254 | [illegible]35 | 7,621 | 7,812 | 8,007 | 8,207 | 8,412 | 8,622 | 8,838 |
| **GROO INCOME** | 1,313,100 | [illegible]345,928 | ,379,576 | [illegible] | 1,449,41[illegible] | ,485,652 | [illegible]522,793 | [illegible] | [illegible]599,885 | 1,639,882 |
| *Vacancy Rate : Market* | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| *Vacancy Rate : Affordable* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Less: Vacancy Loss | 65,655 | 67,296 | 68,979 | 70,703 | 72,471 | 74,283 | 76,140 | 78,043 | 79,994 | 81,994 |
| **EFFECTIVE GROSS INCOME** | 1,247,445 | 1,278,631 | 1,310,597 | 1,343,362 | 1,376,946 | 1,411,370 | 1,446,654 | 1,482,820 | 1,519,891 | 1,557,888 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| *Annual Expense Increase* | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Expenses | 735,446 | 764,864 | 795,458 | 827,276 | 860,367 | 894,782 | 930,573 | 967,796 | 1,006,508 | 1,046,769 |
| Replacement Reserve | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Taxes and Assessments | 5,201 | 5,305 | 5,411 | 5,519 | 5,630 | 5,742 | 5,857 | 5,974 | 6,094 | 6,215 |
| **TOTAL EXPENSES** | 778,817 | 808,339 | 839,039 | 870,966 | 904,167 | 938,695 | 974,601 | 1,011,941 | 1,050,772 | 1,091,154 |
| **NET OPERATING INCOME** | 468,628 | 470,292 | 471,558 | 472,396 | 472,779 | 472,675 | 472,053 | 470,879 | 469,119 | 466,734 |
| **DEBT SERVICE** | | | | | | | | | | |
| CHFA - 1st Mortgage | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 |
| CHFA - Bridge Loan | | | | | | | | | | |
| CHFA - HAT Loan | | | | | | | | | | |
| ASH FLOW after debt service | 107,291 | 108,955 | 110,220 | 111,059 | 1 [illegible]41 | 1 [illegible]38 | 110,716 | 1 [illegible]542 | 107,781 | 105,396 |
| OEBT COVERAGE RATIO | 1.30 | 1.30 | 1.31 | 1.31 | 1.31 | 1.31 | 1.31 | 1.30 | 1.30 | 1.29 |



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## Cash Flow

| RENTAL INCOME | Year 31 | Year 32 | Year 33 | Year 34 | Year 35 |
|---|---|---|---|---|---|
| *Market Rent Increase* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* |
| Market Rents | N/A | N/A | N/A | N/A | N/A |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Affordable Rents | 1,671,820 | 1,713,616 | 1,756,456 | 1,800,367 | 1,845,377 |
| **TOTAL RENTAL INCOME** | **1,671,820** | **1,713,616** | **1,756,456** | **1,800,367** | **1,845,377** |
| | | | | | |
| **OTHER INCOME** | | | | | |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Laundry | 9,059 | 9,285 | 9,518 | 9,756 | 9,999 |
| Other Income | N/A | N/A | N/A | N/A | N/A |
| **TOTAL OTHER INCOME** | **9,059** | **9,285** | **9,518** | **9,756** | **9,999** |
| | | | | | |
| **GROSS INCOME** | **1,680,879** | **1,722,901** | **1,765,974** | **1,810,123** | **1,855,376** |
| | | | | | |
| *Vacancy Rate : Market* | *N/A* | *N/A* | *N/A* | *N/A* | *N/A* |
| *Vacancy Rate : Affordable* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| Less: Vacancy Loss | 84,044 | 86,145 | 88,299 | 90,506 | 92,769 |
| **EFFECTIVE GROSS INCOME** | **1,596,835** | **1,636,756** | **1,677,675** | **1,719,617** | **1,762,607** |
| | | | | | |
| **OPERATING EXPENSES** | | | | | |
| *Annual Expense Increase* | *4.00%* | *4.00%* | *4.00%* | *4.00%* | *4.00%* |
| Expenses | 1,088,639 | 1,132,185 | 1,177,472 | 1,224,571 | 1,273,554 |
| Replacement Reserve | 38,170 | 38,170 | 38,170 | 38,170 | 38,170 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| Taxes and Assessments | 6,340 | 6,467 | 6,596 | 6,728 | 6,862 |
| **TOTAL EXPENSES** | **1,133,149** | **1,176,822** | **1,222,239** | **1,269,469** | **1,318,587** |
| | | | | | |
| **NET OPERATING INCOME** | **463,686** | **459,934** | **455,436** | **450,147** | **444,020** |
| | | | | | |
| **DEBT SERVICE** | | | | | |
| CHFA - 1st Mortgage | 361,337 | 361,337 | 361,337 | 361,337 | 361,337 |
| CHFA - Bridge Loan | | | | | |
| CHFA - HAT Loan | | | | | |
| **CASH FLOW after debt service** | **102,348** | **98,597** | **94,099** | **88,810** | **82,683** |
| **DEBT COVERAGE RATIO** | **1.28** | **1.27** | **1.26** | **1.25** | **1.23** |

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RESOLUTION 01-01

RESOLUTION AUTHORIZING A FINAL
LOAN COMMITMENT MODIFICATION

WHEREAS, the California Housing Finance Agency (the "Agency") previously received a loan application from Thomas Safran & Associates on behalf of Breezewood Village Senior Housing Limited Partnership, a California limited partnership (the "Borrower"), seeking a loan commitment under the Agency's Tax-Exempt Loan Program, the proceeds of which were to be used to provide a mortgage loan for a development to be known as Breezewood Village Apartments (the "Development"); and

WHEREAS, the Agency Board of Directors (the "Board") authorized, pursuant to Resolution 99-01, a final loan commitment for the Development; and

WHEREAS, a modified loan application has now been submitted by the Borrower and reviewed by Agency staff which has prepared its report dated December 26, 2000 (the "Staff Report") recommending Board approval subject to certain recommended terms and conditions; and

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

NOW, THEREFORE, BE IT RESOLVED by the Board:

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

| PROJECT NO. | DEVELOPMENT NAME/ LOCALITY | NO. UNITS | MORTGAGE AMOUNT |
|---|---|---|---|
| 98-032-S | Breezewood Village Apartments La Mirada/Los Angeles | 122 | $5,250,000 |
| | | Tax-Exempt Bridge: | $3,400,000 |

2. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to

Resolution 01-01
Page 2

modify the mortgage amount so stated in this resolution by an amount not to exceed seven percent (7%) without further Board approval.

3. All other material modifications to the final commitment, including changes in mortgage amount of mote than seven percent (7%), must be submitted to the Board for approval. "Material modifications" as used herein means modifications which, in the discretion of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, change the legal, financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 01-01 adopted at a duly constituted meeting of the Board of the Agency held on January 11, 2001, at Millbrae, California.

ATTEST:______________
Secretary

# EXECUTIVE SUMMARY

| | | | |
|---|---|---|---|
| Name: | West Ave Apts | Date: | 27-Dec-00 |
| Location: | 1400 West Ave<br>Santa Rosa, Sonoma County | Borrower: | Burbank Housing Development Corp. |

CHFA # 85-45-N

FINANCING PROGRAM: Tax-Exempt Affordable Program Loan Modification

| UNIT SIZE | NUMBER | TYPE | RENT |
|---|---|---|---|
| 2br/1ba | 4 | RHCP very low 50% | $388 |
| 2br/1ba | 2 | RHCP low 60% | $388 |
| 3br/2ba | 4 | RHCP very low 50% | $388 |
| 3br/2ba | 2 | RHCP low 60% | $388 |
| 2br/1ba | 28 | CHFA low 80% | $640 |
| TOTAL | 40 | | |

| | ORIGINAL | FINAL | PER UNIT |
|---|---|---|---|
| First Mortgage Requested | $905,948 | $905,948 | $22,649 |
| CHFA Reserve Loan | 0 | $115,000 | $2,875 |
| State/Local Loan | $156,932 | $156,932 | $3,923 |
| RHCP Feasibility Loan | $730,666 | $730,666 | $18,267 |
| County of Sonoma Loan | $560,000 | $560,000 | $14,000 |
| | 0 | 0 | $0 |
| Total Development Cost | $2,353,546 | $2,468,546 | $61,714 |

Loan to Cost
41.36%

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CALIFORNIA HOUSING FINANCE AGENCY
**Loan Modification:** Rate Reduction
West Avenue Apartments, Santa Rosa
**CHFA# 85045N**

I. **PURPOSE:**
This is a request to modify the rate and terms of the existing permanent loans on The West Avenue Apartments, an existing 40 unit family apartment project located at 1400 West Avenue, Santa Rosa, California. It is recommended that the Loan Committee approve a rate reduction on the 1st mortgage note interest rate to 6.5% and reamortize the loan for 30 years (effective 7/1/2000). Additionally it is recommended that a new Replacement Reserve loan of up to $115,000 be made as a prioritized second mortgage at a 6.5% interest rate for 15 years. The existing State/Local loan of $156,932 should also be extended to match the 1st mortgage. The Regulatory Agreement will be modified and extended to match the new terms of the 1st mortgage.

II. AGENCY LOAN TERMS:
The existing loan and modified rate and terms are as follows:

| 1st CHFA Mortgage | Existing Terms | Modified Rate and Term |
|---|---|---|
| Loan Amount: | $905,948 | $905,948 |
| Interest Rate: | 10.25% | 6.5 A |
| Term: | 30 year fixed fully amortized (16 year remaining term) | 30 year fixed, fully amortized |
| **New prioritized 2nd Loan - Replacement Reserve Loan** | | |
| Loan Amount | | $115,000 |
| Interest: | | 6.5 % |
| Term: | | 15 years, fully amortized |
| **3rd Loan) ocal Mortgage** | | |
| Loan Amount | $156,932 | $156,932 |
| Interest Rate: | 3% | 3% |
| Term: | Residual receipts | Residual receipts |

Sonoma County and the State Department of Housing and Community Development are willing to subordinate their existing loans to the modified terms. These loans are repayed from residual receipts after the CHFA State/Local loan.

CHFA will advance up to $115,000 as a fifteen year loan, to Burbank Housing as a prioritized second mortgage to address anticipated immediate capital needs as reflected in a recent reserve study commissioned by Burbank Housing Management.

Replacement reserve contributions from operating expenses will be increased to $20,000 per year to address capital replacement needs in future years.

## III AS IS VALUE

Utilizing current rents, the "as is" value of the project is $1,172,047 based upon a cap rate of 8.5 and NOI generated by the new 6.5% interest rate and 30 year amortization.

The current low and very low income rents average $590 per month, the rents had been historically suppressed (in prior years) below allowable restricted rent levels and are being trended to correct cashflow while limiting the adverse impact on existing tenants.

Market rents based upon recent agency market studies in the Santa Rosa area indicate rents in the $875 to $1000 range for two bedroom units. Project rents at the 80% AMI level are currently set at $640 per month.

## IV PROJECT BACKGROUND

West Avenue Apartments is a 40 Unit project completed in 1986 as a CHFA "State/Local" Project Initiative that required local government investment along with a HAT type CHFA investment. The project is wholly owned by Burbank Housing Development Corp. as a 501c3 non profit corporation. Debt financing was provided by CHFA in two loans. The first loan was bond financed with an original balance of $1,027,500. The second loan provided a 10 year operating deficit reserve to augment deficits generated by the negative cashflow of the project. This was a feature of the original program underwriting. The current balance on this second loan is $156,932, including accrued interest. There is also a third loan that was made through the HCD administered RHCP program that financed 100% of the cost for 12 units in the project. RHCP rental income is limited to budgeted operating expenses for those units and represent the actual project income generated for cashflow purposes.

The Project was initially underwritten with a substantial operating deficit and it utilized the State/Local second loan proceeds as a operating subsidy. It assumed aggressive rent trending in it's original cashflow proforma. The Project continued to operate at a significant deficit and was assigned to Agency staff for remedial evaluation and restructuring recommendation.

The project was originally designed with solar heating features that were inadequately engineered and became construction defect liabilities for the owner. These features are now functionally obsolete and major corrective rehabilitation to address the problem occurred four years ago that depleted the replacement reserves. The Project is faced with normal rehab/replacement costs associated with a 14 year old project and some lingering latent defects that require a capital infusion of $115,000. A doublii of the budgeted annual replacement reserve contributions to accommodate repairs and replacement over the remaining life of the project is also required. Another significant financial burden to the project has been a large increase in sewer fees (assessments) due to 0 discharge requirements imposed on the area by the EPA regarding the Russian River and floods in recent years. The new sewer improvements were bond financed and the assessments were passed on to the property owners.

## OWNER EFFORTS TO MITIGATE

Owners have made a diligent efforts to trend rent increases to current affordable housing formulas to improve revenues. They have also revised their operating budgets to improve efficiency without sacrificing quality. They contracted a reserve study to accurately reflect the project replacement needs for the future. They have approached local government for assistance to mitigate operating deficits by requesting additional capital investment for repair and replacement. They also approached the local sewer agency *to* request a reduction in sewer rates. In both cases their requests were denied.

## LOCALITY INVOLVEMENT

The Sonoma County Housing Authority acting on behalf of *the* County of Sonoma has invested $560,000 in HUD CDBG funds for initial site acquisition and development costs for the project. There currently is a lien on the project reflecting this investment. They have agreed to subordinate this loan.

## HCD RHCP INVESTMENT

The HCD Rental Housing Construction Program *(RHCP)* originally funded 12 units in this project for $730,666. Units financed under this program are for very low-income tenants. HCD has agreed to subordinate their loan and extend their commitment to subsidize the units for an additional 15 years beyond *the* current term.

**RHCP RENT SUBSIDY**

HCD has indicated that it is uncertain whether resources will be available to fund this extended subsidy commitment. Their agreement to extend is subject to availability of funds. They have also agreed to hold excess rents collected for the projects RHCP units as an additional reserve for future subsidy payments. The project has been underwritten to generate sufficient income to continue RHCP rent levels (for the allocated units) in the 16th year if RHCP annuity funds are not available.

The RHCP Program annuity guarantees the operating expenses for the project cash flow in the event that formula rents do not generate sufficient income for the expenses for these units. Scheduled income from the RHCP units that is included as project income is only based upon the actual operating expenses for the project and have the same trending assumptions as project operating expenses.

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It is recommended that the Loan Committee approve a rate reduction on the 1st mortgage note interest rate to 6.5% and reamortize the loan for 30 years (effective 7/1/2000). The Regulatory Agreement will be modified and extended an additional 16 years to match the reamortization schedule of the 1st mortgage.

The alternate to a loan modification is to proceed under the existing loan tenns until default occurs. Burbank Housing Development Corporation has indicated it does not have the resources to continue to support current project operating deficits.

The proposed rate reduction, as presented, benefits all parties and keeps the project viable, while extending affordability an additional 16 years and providing a reasonable return on CHFA's investment.

## V. PROPERTY DESCRIPTION/MARKET CONDITIONS

A. **GENERAL INFORMATION** The property consists of 34 two bedroom units and 6 three bedroom units in 7 two story buildings. Gross building square footage is 32,742. Average unit size for a two bedroom is 780 sq feet, three bedroom units are 984 sq feet per unit. Apartment amenities include dishwashers, landscaped open areas, air conditioning patios or balconies, and open parking.

### B. PROPERTY DESCRIPTION

1. LOCATION: The project is located at 610 South Avenue at the comer of West Avenue and South Avenue in a western residential section of an unincorporated area of Santa Rosa. The project has excellent access to the regional freeway system. It is located 1.5 miles from

the central business district and a half mile from major regional shopping on Sebastopol Road. The project location is in an older area of Santa Rosa and some adjacent properties appear neglected.

2. OCCUPANCY AND STABILITY OF INCOME: Burbank Housing Management Corporation, an affiliate of Burbank Housing Development currently manages the project. Vacancy rates have stayed below 5%. Operating expenses are being carefully budgeted and management is implementing a program of trending suppressed rents upward gradually to prevent tenant rent shock. The property's cash flow is stable and expects to gradually increase because of the tight rental market in Santa Rosa.

3. CONDITION: The project was completed and occupied in 1986. Currently Burbank Housing Management Corporation completed a replacement reserve study to identify current maintenance and anticipated maintenance, and the adequacy of projected reserves to address these needs. Four years ago the project corrected latent defects associated with the dysfunctional solar system originally designed into the project. This depleted the reserves needed to address normal repair and replacement for a 14 year old project. To address this shortfall, the annual operating budget for replacement reserve contribution (for future years) has been increased from $9800 a year to $20,000 per year. To address immediate needs over the next three years, $115,000 must be advanced by CHFA to the project. Immediate maintenance items include a complete painting of the project, exterior T-111 siding repair/replacement, repair of porch membranes to prevent leakage into downstairs units, and replacement of hot water plumbing lines. Asset Management's property inspection reports indicate that the project is otherwise in good condition and generally well maintained.

4. MA STI : The City of Santa Rosa and the surrounding unincorporated area has an limited supply of affordable rental housing and it is fully occupied. Low income residents face considerable market competition from other renters. Recent CHFA market studies conducted in the area indicate vacancies in the 3% range and no rent concessions are being offered. Current rents range from $950 to $1030 a month for 2 bedroom units to $1060 to $1300 per month for 3 bedroom units.

Vacancy rates indicate good demand for affordable multifamily units. Based upon a market analysis for a similar project, taking into account population growth over the next decade there will be sufficient demand over the long term to support the modified loan underwriting assumptions.

5. OCCUPANCY RESTRICTIONS:

| | |
|---|---|
| CHFA and HCD: | 20% of the units (8) are restricted at 50% of median income. |
| HCD: | 10% of the units (4) are restricted at 60% of median income |
| CHFA and PHA: | 70% of the units (28) are restricted at 80% of median income. |

6. ENVIRONMENTAL ISSUES: No known material environmental hazards exist on or near the property.

C. BORROWER INFORMATION: Burbank Housing Development Corporation is a private, non-profit corporation. *Since* incorporation in 1980, it has developed 19 rental housing projects for family, elderly, special needs and farmworker households. West Avenue Apartments is owned without syndicated or other for-profit partners as a 501c3 non-profit.

D. LOAN HISTORY

1. PAYMENT/DELINQUENCY HISTORY The mortgage has a history of *being* current.

2. PREVIOUS PROPOSALS: *Since* the beginning of 1997 Burbank Housing Management has been jointly working with CHFA on a "preventative workout" in anticipation of the exhaustion of the State/Local (HAT) interest subsidy reserve.

# Commitment Summary

Project: West Ave Apts
1400 West Ave
Santa Rosa, Sonoma County

CHFA #. 8545-N

Date: 05-Jan-01
Borrower: Burbank Housing Development Corp.

FINANCING PROGRAM: Tax-Exempt Affordable Program Loan Modification

## Project Profile:

| | |
|---|---|
| Number of Units : | 40 |
| Handicap Units | 2 |
| Family/Elderly | Family |
| New Const/Rehab | Existing |
| Units/Acre | 16.7 |
| No. of Buildings | 10 |
| No. of Stories | 2 |
| Gross Bldg Sq Ft | 32,742 |
| Land Sq Ft | 104,544 |
| Total Parking | 80 |
| Covered Parking | 40 |

## Project Valuation:

| | |
|---|---|
| Cost: | 2,865,062 |
| Market: | 2,982,976 |
| Income: | 1,172,047 |
| Final Value: | 2,467,500 |

Appraiser: N/A

## LTC/LTV:

| | |
|---|---|
| Loan/Cost | 41.2% |
| Loan/Value | 41.4% |

## Mortgage Terms:

| | |
|---|---|
| CHFA 1st Mortgage | $905,948 |
| Interest Rate | 650% |
| Mortgage Loan Term | 30 |
| CHFA Replacement Reserve Loan | $115,000 |
| Interest Rate | 6.50% |
| Mortgage Loan Term | 15 |
| Non Amortized Debt | |
| CHFA State/Local Loan | $156,932 |
| RHCP Loan | $730,666 |
| County of Sonoma Loan | $560,000 |
| Total Loans | $2,468,546 |

## Unit Mix and Income:

| | 1/1 | Bed/Bath Sq Feet | 2/1 740 | Bed/Bath Sq Feet | 3/2 984 | Bed/Bath Sq Feet | Total | |
|---|---|---|---|---|---|---|---|---|
| Income Level | | Rent | Number | Rent | | Rent | Units | Rents |
| 50% RHCP | 0 | $0 | 4 | $388 | 4 | $388 | 8 | 3,104 |
| 60% RHCP | 0 | $0 | 2 | $388 | 2 | $388 | 4 | 1,552 |
| 80% CHFA | 0 | $0 | 28 | $640 | | | 28 | 17,920 |
| | | | | | | | | 0 |
| Subtotals | 0 | $0 | 34 | $20,248 | 6 | $2,328 | 40 | 22,576 |

**Other Income**

| | |
|---|---|
| Laundry Income | $657 |
| Other Income | $400 |
| Total Monthly | $1,057 |

**Total Income**

| | |
|---|---|
| Rental Income | $22,576 |
| Other Income | $1,057 |
| Total Monthly Income | $23,633 |
| Annual Gross Income | $283,596 |

# Commitment Summary



**Date:** 27-Dec-00
**Borrower:** Burbank Housing Development Corp.

**NCING PROGRAM:** Tax-Exempt Affordable Program Loan Modification

## Project Profile:

| | |
|---|---|
| Number of Units | 40 |
| Handicap Units | 2 |
| Family/Elderly | Family |
| New Const/Reha | Existing |
| Units/Acre | 16.7 |
| No. of Buildings | 10 |
| No. of Stories | 1 |
| Gross Bldg Sq Ft | 32,142 |
| Land Sq Ft | 104,544 |
| Total Parking | 80 |
| Covered Parking | 40 |

## Project Valuation:

| | |
|---|---|
| Cost: | 2,865,062 |
| Market: | 2,982,976 |
| Income: | 1,172,047 |
| Final Value: | 2,467,500 |

Appraiser: N/A

## LTC/LTV:

| | |
|---|---|
| Loan/Cost | 4.6% |
| Loan/Value | 4.7% |

## Mortgage Terms:

| | |
|---|---|
| CHFA 1st Mortgage | $905,948 |
| Interest Rate | 6.50% |
| Mortgage Loan Term | 30 |
| CHFA Replacement Reserve Loan | $115,000 |
| Interest Rate | 6.50% |
| Mortgage Loan Term | 15 |
| CHFA State/Local Loan | $156,932 |
| RHCP Loan | $730,666 |
| County of Sonoma Loan | $560,000 |
| Total Loans | $2,468,546 |

## Unit Mix and Income:

| | 1/1 | Bed/Bath Sq Feet | 2/1 740 | Bed/Bath Sq Feet | 3/2 984 | Bed/Bath Sq Feet | Total | |
|---|---|---|---|---|---|---|---|---|
| Income Level | | Rent | Number | Rent | | Rent | Units | Rents |
| 50% RHCP | 0 | $0 | 4 | $388 | 4 | $388 | 8 | 3,104 |
| 60% RHCP | 0 | $0 | 2 | $388 | 2 | $388 | 4 | 1,552 |
| 80% CHFA | 0 | $0 | 28 | $640 | | | 28 | 17,920 |
| | | | | | | | | 0 |
| Subtotals | 0 | $0 | 34 | $20,248 | 6 | $2,328 | 40 | 22,576 |

**Other Income**

| | |
|---|---|
| Laundry Incom | $657 |
| Other Income | $400 |
| Total Monthly | $1,057 |

**Total Income**

| | |
|---|---|
| Rental Income | $22,576 |
| Other Income | $1,057 |
| Total Monthly Income | $23,633 |
| Annual Gross Income | $283,596 |

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West Ave Apts

## ANNUAL OPERATING BUDGET

| | Approved ($) | Pct. of Total | $ per/ unit |
|---|---|---|---|
| **INCOME** | | | |
| Gross Potential Rents | 270,912 | 95.5% | 6,773 |
| Interest | 4,800 | 1.7% | 120 |
| Laundry | 7,884 | 2.8% | 197 |
| Commercial/Retail | 0 | 0.0% | 0 |
| Other Income | 0 | 0.0% | 0 |
| Gross Potential Income **(GPI)** | **283,596** | 100.0% | 7,090 |
| Less: | | | |
| Vacancy Loss | 14,180 | 5.0% | 354 |
| Employee Apartment | 0 | 0.0% | 0 |
| **Total Net Revenue** | **269,416** | **95.0%** | **6,735** |
| **EXPENSES** | | | |
| Payroll | 23,715 | 9.0% | 593 |
| Administrative | 17,876 | 6.8% | 447 |
| Utilities | 28,357 | 10.7% | 709 |
| Operating and Maintenance | 22,032 | 8.3% | 551 |
| Insurance and Taxes | 22,854 | 8.6% | 571 |
| **Subtotal CHFA Operating Expenses** | **114,834** | **43.4%** | **4,101** |
| **RHCP Operating Expenses** | **49,214** | **18.6%** | **4,101** |
| **Consolidated Operating Expenses** | **164,048** | **62.0%** | |
| **Financial Expenses** | | | |
| Mortgage Payments (1st loan) | 68,715 | 26.0% | 1,718 |
| Other Mortgages | 12,022 | 43% | 301 |
| Reserve for Replacement Deposits | 20,000 | 7.6% | 500 |
| Other | 0 | 0.0% | 0 |
| Total **Financial** | 100,737 | *38.0%* | **2,518** |
| **TOTAL PROJECT EXPENSES** | **264,785** | **100.0%** | **6,620** |

Doc Name:
West Ave

PROJECT CASH FLOW

12/22/00

| RENTAL INCOME | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| *CHFA Affordable Rent Increase* | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 3.00% |
| *RHCP affordable Increase (OE increase)* | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| CHFA Affordable Rents | 215,040 | 220,416 | 225,926 | 231,575 | 237,364 | 243,298 | 249,380 | 255,615 | 262,005 | 268,555 |
| RHCP Affordable Rents+ OE Annuity | 55,872 | 58,107 | 60,431 | 62,848 | 65,362 | 67,977 | 70,696 | 73,524 | 76,465 | 79,523 |
| TOTAL RENTAL INC. | 270,912 | 278,523 | 286,358 | 294,423 | 302,726 | 311,275 | 320,076 | 329,139 | 338,470 | 348,079 |

| OTHER INCOME | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Other Income Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Laundry | 12,684 | 12,938 | 13,196 | 13,460 | 13,730 | 14,004 | 14,284 | 14,570 | 14,861 | 15,159 |
| TOTAL OTHER INC. | 12,684 | 12,938 | 13,196 | 13,460 | 13,730 | 14,004 | 14,284 | 14,570 | 14,861 | 15,159 |

| GROSS INCOME | 283,596 | 291,461 | 299,554 | 307,883 | 316,456 | 325,279 | 334,361 | 343,709 | 353,331 | 363,237 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Vacancy Rate : Affordable (CHFA)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Vacancy Rate : Affordable (RHCP)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Less: Vacancy Loss | 14,180 | 13,926 | 14,318 | 14,721 | 15,136 | 15,564 | 16,004 | 16,457 | 16,924 | 17,404 |
| EFFECTIVE GROSS INC. | 269,416 | 277,534 | 285,236 | 293,162 | 301,320 | 309,715 | 318,357 | 327,252 | 336,408 | 345,833 |

| OPERATING EXPENSES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Annual Expense Increase* | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Expenses | 141,194 | 146,842 | 152,715 | 158,824 | 165,177 | 171,784 | 178,655 | 185,802 | 193,234 | 200,963 |
| *Annual Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Assessments and Insurance | 22,854 | 23,311 | 23,777 | 24,253 | 24,738 | 25,233 | 25,737 | 26,252 | 26,777 | 27,313 |
| TOTAL EXPENSES | 164,048 | 170,153 | 176,493 | 183,077 | 189,915 | 197,017 | 204,393 | 212,054 | 220,011 | 228,276 |

| NET OPER. INCOME | 105,368 | 107,382 | 108,743 | 110,085 | 111,405 | 112,699 | 113,964 | 115,198 | 116,397 | 117,558 |
|---|---|---|---|---|---|---|---|---|---|---|

| RESERVES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Replacement Reserve Deposit | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| CASH FLOW b/f debt service | 85,368 | 87,382 | 88,743 | 90,085 | 91,405 | 92,699 | 93,964 | 95,198 | 96,397 | 97,558 |

| DEBT SERVICE | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| CHFA Interest Rate | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% |
| CHFA 1st Loan (30yr) | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 |
| Replacement Loan (15yr) | 12,022 | 12,022 | 12,022 | 12,022 | 12,022 | 12,022 | 12,022 | 12,022 | 12,022 | 12,022 |
| Total Debt Service | 80,737 | 80,737 | 80,737 | 80,737 | 80,737 | 80,737 | 80,737 | 80,737 | 80,737 | 80,737 |

| FINAL CASH FLOW | 4,631 | 6,645 | 8,006 | 9,348 | 10,668 | 11,962 | 13,227 | 14,461 | 15,660 | 16,821 |
|---|---|---|---|---|---|---|---|---|---|---|
| DEBT SERVICE COVERAGE | 1.06 | 1.08 | 1.10 | 1.12 | 1.13 | 1.15 | 1.16 | 1.18 | 1.19 | 1.21 |

Doc Name:
West Ave

12/22/00

| RENTAL INCOME | Year 11 | Year 12 | Year 13 | Year 14 | Year 15 | Year 16 | Year 17 | Year 18 | Year 19 | Year 20 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| *CHFA Affordable Rent Increase* | 2.75% | 2.75% | 2.75% | 2.75% | 2.75% | 2.75% | 2.75% | 2.75% | 2.75% | 2.75% |
| *RHCP affordable Increase (OE increase)* | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| CHFA Affordable Rents | 276,612 | 284,219 | 292,035 | 300,066 | 308,318 | 316,797 | 325,508 | 334,460 | 343,658 | 353,108 |
| RHCP Affordable Rents+ OE Annuity | 82,704 | 86,012 | 89,453 | 93,031 | 96,752 | 100,622 | 104,647 | 108,833 | 113,186 | 117,714 |
| TOTAL RENTAL INC. | 359,316 | 370,231 | 381,488 | 393,097 | 405,070 | 417,419 | 430,156 | 443,293 | 456,844 | 470,822 |
| | | | | | | | | | | |
| OTHER INCOME | | | | | | | | | | |
| *Other Income Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Laundry | 15,462 | 15,771 | 16,086 | 16,408 | 16,736 | 17,071 | 17,412 | 17,761 | 18,116 | 18,478 |
| TOTAL OTHER INC. | 15,462 | 15,771 | 16,086 | 16,408 | 16,736 | 17,071 | 17,412 | 17,761 | 18,116 | 18,478 |
| | | | | | | | | | | |
| GROSS INCOME | 374,778 | 386,002 | 397,574 | 409,505 | 421,806 | 434,490 | 447,568 | 461,054 | 474,960 | 489,300 |
| *Vacancy Rate : Affordable (CHFA)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Vacancy Rate : Affordable (RHCP)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Less: Vacancy Loss | 17,966 | 18,512 | 19,074 | 19,655 | 20,254 | 20,871 | 21,508 | 22,165 | 22,842 | 23,541 |
| EFFECTIVE GROSS INC. | 356,812 | 367,491 | 378,500 | 389,850 | 401,553 | 413,619 | 426,060 | 438,889 | 452,118 | 465,759 |
| | | | | | | | | | | |
| OPERATING EXPENSES | | | | | | | | | | |
| *Annual Expense Increase* | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Expenses | 209,002 | 217,362 | 226,056 | 235,098 | 244,502 | 254,282 | 264,454 | 275,032 | 286,033 | 297,474 |
| *Annual Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Assessments and Insurance | 27,859 | 28,416 | 28,984 | 29,564 | 30,155 | 30,758 | 31,374 | 32,001 | 32,641 | 33,294 |
| TOTAL EXPENSES | 236,861 | 245,778 | 255,041 | 264,662 | 274,658 | 285,041 | 295,827 | 307,033 | 318,674 | 330,768 |
| | | | | | | | | | | |
| NET OPER. INCOME | 119,952 | 121,713 | 123,459 | 125,188 | 126,895 | 128,578 | 130,233 | 131,856 | 133,443 | 134,991 |
| | | | | | | | | | | |
| RESERVES | | | | | | | | | | |
| Replacement Reserve Deposit | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| CASH FLOW b/f debt service | 99,952 | 101,713 | 103,459 | 105,188 | 106,895 | 108,578 | 110,233 | 111,856 | 113,443 | 114,991 |
| | | | | | | | | | | |
| DEBT SERVICE | | | | | | | | | | |
| CHFA Interest Rate | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% |
| CHFA 1st Loan (30yr) | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 |
| Replacement Loan (15yr) | 12,022 | 12,022 | 12,022 | 12,022 | 12,022 | 0 | 0 | 0 | 0 | 0 |
| Total Debt Service | 80,737 | 80,737 | 80,737 | 80,737 | 80,737 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 |
| | | | | | | | | | | |
| FINAL CASH FLOW | 19,215 | 20,976 | 22,722 | 24,451 | 26,158 | 39,863 | 41,518 | 43,141 | 44,728 | 46,276 |
| DEBT SERVICE COVERAGE | 1.24 | 1.26 | 1.28 | 1.30 | 1.32 | 1.58 | 1.60 | 1.63 | 1.65 | 1.67 |

907

Doc Name:
West Ave

12/22/00

| RENTAL INCOME | Year 21 | Year 22 | Year 23 | Year 24 | Year 25 | Year 26 | Year 27 | Year 28 | Year 29 | Year30 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| *CHFA Affordable Rent Increase* | 2.75% | 2.75% | 2.75% | 2.75% | 2.75% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| *RHCP affordable Increase (OE increase)* | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| CHFA Affordable Rents | 362,819 | 372,796 | 383,048 | 393,582 | 404,405 | 415,526 | 427,992 | 440,832 | 454,057 | 467,679 |
| RHCP Affordable Rents+ OE Annuity | 122,422 | 127,319 | 132,412 | 137,709 | 143,217 | 148,946 | 154,903 | 161,100 | 167,544 | 174,245 |
| TOTAL RENTAL INC. | 485,241 | 500,116 | 515,460 | 531,291 | 547,622 | 564,472 | 582,896 | 601,932 | 621,601 | 641,924 |

| OTHER INCOME | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Other Income Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Laundry | 18,848 | 19,225 | 19,609 | 20,001 | 20,401 | 20,809 | 21,226 | 21,650 | 22,083 | 22,525 |
| TOTAL OTHER INC. | 18,848 | 19,225 | 19,609 | 20,001 | 20,401 | 20,809 | 21,226 | 21,650 | 22,083 | 22,525 |

| GROSS INCOME | 504,089 | 519,340 | 535,069 | 551,292 | 568,024 | 585,282 | 604,121 | 623,582 | 643,684 | 664,449 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Vacancy Rate : Affordable (CHFA)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Vacancy Rate : Affordable (RHCP)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Less: Vacancy Loss | 24,262 | 25,006 | 25,773 | 26,565 | 27,381 | 28,224 | 29,145 | 30,097 | 31,080 | 32,096 |
| EFFECTIVE GROSS INC. | 479,827 | 494,334 | 509,296 | 524,727 | 540,643 | 557,058 | 574,977 | 593,485 | 612,604 | 632,353 |

| OPERATING EXPENSES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Annual Expense Increase* | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Expenses | 309,373 | 321,748 | 334,618 | 348,003 | 361,923 | 376,400 | 391,456 | 407,114 | 423,399 | 440,335 |
| *Annual Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Assessments and Insurance | 33,960 | 34,639 | 35,332 | 36,038 | 36,759 | 37,494 | 38,244 | 39,009 | 39,789 | 40,585 |
| TOTAL EXPENSES | 343,333 | 356,387 | 369,950 | 384,042 | 398,682 | 413,895 | 429,700 | 446,124 | 463,188 | 480,920 |

| NET OPER. INCOME | 136,494 | 137,947 | 139,346 | 140,686 | 141,960 | 143,164 | 145,276 | 147,362 | 149,415 | 151,433 |
|---|---|---|---|---|---|---|---|---|---|---|

| RESERVES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Replacement Reserve Deposit | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| CASH FLOW b/f debt service | 116,494 | 117,947 | 119,346 | 120,686 | 121,960 | 123,164 | 125,276 | 127,362 | 129,415 | 131,433 |

| DEBT SERVICE | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| CHFA Interest Rate | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% | 6.50% |
| CHFA 1st Loan (30yr) | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 |
| Replacement Loan (15yr) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Debt Service | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 | 68,715 |

| FINAL CASH FLOW | 47,779 | 49,232 | 50,631 | 51,971 | 53,245 | 54,449 | 56,561 | 58,647 | 60,700 | 62,718 |
|---|---|---|---|---|---|---|---|---|---|---|
| DEBT SERVICE COVERAGE | 1.70 | 1.72 | 1.74 | 1.76 | 1.77 | 1.79 | 1.82 | 1.85 | 1.88 | 1.91 |

RESOLUTION 01-02

RESOLUTION AUTHORIZING A LOAN MODIFICATION COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") staff has reviewed a request for loan modification from Burbank Housing Development Corporation, a California nonprofit corporation the ("Borrower"), for West Avenue Apartments (the "Development"), and has recommended to the Board of Directors (the "Board") that such loan be modified; and

WHEREAS, the Board of Directors has reviewed the loan modification and concurs in the recommendation of the staff; and

WHEREAS, based upon the recommendation of staff, the Board has determined that the loan modification be made to such project; and

NOW, THEREFORE, BE IT RESOLVED by the Board:

1. The Executive Director, or in his/her absence, the Deputy Director or Director of Multifamily Programs of the Agency is hereby authorized to transmit a commitment letter for loan modification, subject to the recommended terms and conditions set forth in the CHFA staff report entitled "California Housing Finance Agency Loan Modification" and dated December 27, 2000 for:

| PROJECT NUMBER | DEVELOPMENT NAME/ LOCALITY | NO. UNITS |
|---|---|---|
| 85-045-N | West Avenue Apartments<br>Santa Rosa/Sonoma | 40 |

2. The Executive Director, or in his/her absence, the Deputy Director or Director of Multifamily Programs of the Agency has the authority to modify the revised mortgage amount so stated in this resolution by an amount not to exceed seven percent (7%) of the modified loan amount without further Board approval. All material

modifications to this commitment, including changes in mortgage amount of more than seven percent (7%), must be submitted to this Board for approval. "Material modifications" as used herein means modifications which, in the discretion of the Executive Director, or in his/her absence, the Deputy Director or Director of Multifamily Programs of the Agency, change the legal, financial or public purpose aspects of this commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 01-02 adopted at a duly constituted meeting of the Board of the Agency held on January 11,2001, at Millbrae, California.

ATTEST______________
Secretary

State of California

# MEMORANDUM



To: Board of Directors

Date: December 28, 2000

From: Kenneth R. Carlson, Director of Financing
CALIFORNIA HOUSING FINANCE AGENCY

Subject: ANNUAL SINGLE FAMILY BOND REAUTHORIZATION RESOLUTION 01-04

Resolution 01-04 would authorize the sale and issuance of CHFA single family bonds (with related interest rate swaps and other financial agreements) for another year. Annual reauthorization enables us to schedule and size our bond transactions to meet demand for loan funds throughout the year without regard to the timing of individual Board meetings.

The resolution would authorize single family bonds to be issued in various amounts by category, as follows:

(1) equal to the amount of prior single family bonds being retired, including eligible bonds of other issuers;

(2) equal to the amount of private activity bond volume cap made available for our single family program by the California Debt Limit Allocation Committee;

(3) up to $900 million of federally-taxable single family bonds (in addition to any taxable bonds issued under the first category).

Bonds would be authorized to be issued under any of the previously-approved forms of indenture as listed in the resolution. We again anticipate continuing to use the Home Mortgage Revenue Bond indenture, with its Aa2/AA- ratings, for our single family bond issuances in 2001. Bonds issued under this 18-year-old financing program, which does not rely on the CHFA general obligation, now comprise approximately 72% of our $7.2 billion of outstanding bonds.

The resolution would also authorize the full range of related financial agreements, including contracts for investment of bond proceeds, for warehousing of mortgages pending the availability of bond proceeds, for interest rate hedging (including the continued use of interest rate swaps), and for forward delivery of bonds through August 1, 2003. In addition, the resolution would clarify that the limit on delegated contracting authority is not meant to apply to necessary services provided in the course of the Agency's issuance of bonds, e.g., contracts with bond underwriters, bond trustees, bond counsel, and financial advisors.

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The resolution would also reauthorize application to the State's Pooled Money Investment Board for a borrowing of up to $250 million for our warehouse line. The current amount borrowed from the PMIB for this purpose is $150 million.

In addition, the resolution would reauthorize cooperation with local agencies similar to that accomplished in 1997 when CHFA sold bonds for a joint powers authority.

In order to allow for necessary overlap of authority for bond issues scheduled during the time that reauthorization is being considered, Resolution 01-04 would not expire until 30 days after the first Board meeting in the year 2002 at which there is a quorum. Likewise, last year's single family resolution (00-05) will not expire until 30 days after this meeting.

During 2001 we again anticipate selling single family bonds (and arranging the related interest rate swaps) every sixty days, and we are on the State Treasurer's bond sale calendar for sales in January, March, May, July, September, and November. Locking in our cost of funds this often enables us to mitigate interest rate risk and to size transactions based on actual demand as expressed through loan reservations.

Attachment

krc: SA0N4KCQ

RESOLUTION NO. 01-04

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY CONCERNING THE FINANCING OF LOANS FOR SINGLE FAMILY RESIDENCES AND THE ISSUANCE OF THE AGENCY'S BONDS FOR THAT PURPOSE

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 "Program") to make lower-than-market-rate loans for the 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 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 Single Family Mortgage Purchase Bonds (the "SFMP Bonds"), its Home Ownership and Home Improvement Revenue Bonds (the "HOHI Bonds"), its Home Mortgage Revenue Bonds (the "HMP Bonds"), its Home Ownership Mortgage Bonds (the "HOM Bonds") and its Single Family Mortgage Bonds (the "SFMor Bonds"), and is authorized pursuant to the Act to issue additional SFMP Bonds, HOHI Bonds, HMP Bonds, HOM Bonds and SFMor Bonds (collectively with bonds authorized under this resolution to be issued under new indentures, the "Bonds") to provide funds to finance the Program;

WHEREAS, pursuant to Chapter 6 of Part 5 of Division 31 (Sections 52060 *et seq.*) of the Health and Safety Code of the State of California (the "Local Agency Assistance Act"), the Agency also has the authority to enter into agreements with cities, counties and joint powers authorities created by cities and counties (collectively, "Local Agencies"), which provide that the Agency shall sell bonds on behalf of such Local Agencies for the purpose of providing funds for home mortgages financing residences within the respective jurisdictions of such Local Agencies; and

WHEREAS, the Local Agency Assistance Act provides that although such bonds are to be bonds of the Local Agency ("Local Agency Bonds"), the proceeds of such Local Agency Bonds may be utilized in the Agency's Program, including borrowing such proceeds through the issuance of Bonds to the Local Agency;

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

Section 1. Determination of Need and Amount. The Agency is of the opinion and hereby determines that the issuance of one or more series of 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 of Bonds and/or other qualified mortgage bonds (including bonds of issuers other than the Agency) to be redeemed or maturing in connection with 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, $900,000,000.

Section 2. Authorization and Timing. The Bonds are hereby authorized to be issued in such aggregate amount at such time or times on or before the day 30 days after the date on which is held the first meeting of the Board in the year 2002 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 30 days after the date on which is held such meeting, pursuant to a forward purchase agreement providing for the issuance of such Bonds on or before August 1, 2003 upon specified terms and conditions, such Bonds may be issued on such later date.

Section 3. Approval of Forms of Indentures. The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of Bonds, to execute and acknowledge and to deliver to the Treasurer as Trustee and/or, if appropriate, to a duly qualified bank or trust company selected by the Executive Director to act as trustee or co-trustee with the approval of the Treasurer, one or more new indentures (the "New Indentures"), in one or more forms similar to one or more of the following:

(a) that certain indenture pertaining to the SFMP Bonds (the "SFMP Indenture"),

(b) that certain indenture pertaining to the HOHI Bonds (the "HOHI Indenture"),

(c) that certain indenture pertaining to the HOM Bonds (the "HOM Indenture"),

(d) those certain indentures pertaining to the ***HMP*** Bonds (the "HMP Indentures"),

(e) that form of general indenture approved by Resolution No. **92-41,** adopted November **12,1992** (the **"SHOP** Indenture"),

**(f)** that form of master trust indenture proposed by the Federal National Mortgage Association ("FNMA") in connection with their "MRB Express" program and approved by Resolution No. **93-30,** adopted September **7,1993** (the "FNMA **MRB** Express Program Indenture"),

**(g)** **that** form of general indenture designed for the FNMA Index Option Program and approved by Resolution **94-01,** adopted January **13, 1994** (the "FNMA Index Option Program Indenture"), and/or

(h) those certain indentures pertaining to the SFMor Bonds (the "SFMor Indentures").

Each such New Indenture may be executed, acknowledged and delivered with such changes therein **as** the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in 'any New Indenture may include, without limitation, 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.**

<u>**Section 4**</u> <u>Approval **of Forms** of t Indenture.</u> **F( each series of** Bonds, **the** Executive Director and the Secretary of the Board (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 Bonds, if and to the extent appropriate, a supplemental indenture (a "Supplemental Indenture") pertaining to such series 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 Supplemental Indenture may include, without limitation, 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.

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 SFMP Indenture, the **HOHI** Indenture, the **HOM** Indenture, the **HMP** Indentures or any New 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 Bonds.** The 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 Supplemental Indenture as finally approved shall provide. The 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 that no Bond shall have a term in excess of fifty years or bear interest at a stated rate in excess of twelve percent (12%) per annum (in the case of variable rate bonds, a maximum floating interest rate of fifteen percent (15%) per annum), or, if interest is determined to be intended not to be excludable from gross income for federal income tax purposes, fifteen percent (15%) per annum (in the case of taxable variable rate bonds, a maximum floating interest rate of twenty-five percent (25%) per annum). Any of the Bonds and the 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 and to accommodate bond insurance or other credit or liquidity enhancement.

Section 6. **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 infoxmation meetings concerning the Bonds and to distribute other information and material relating to the Bonds.

Section 7. **Authorization of Sale of Bonds.** The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. 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 (including, but not limited to, FNMA) 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 mount of said deposit shall be applied at the time of delivery of the applicable Bonds, as the case may be, as part of the purchase price thereof or returned to the Purchasers as provided in such purchase contract.

Section 8. 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 Supplemental Indenture(s) or the New Indenture(s) and in one or more of the forms set forth in the Supplemental Indenture(s) or the New Indenture(s), as appropriate.

Section 9. 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 10. Authorization of Related Financial Agreements. The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (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. To the extent authorized by 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, or (e) contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar exposure. 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.

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) to make or purchase Loans to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of the issuance of bonds or the availability of bond proceeds for such purposes.

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 credit facilities for the purpose of financing the purchase of Loans on an interim basis, prior to the financing of such Loans with Bonds, whether issued or to be issued. Any such short-term 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 short-term credit facilities from the Pooled Money Investment Account authorized under this resolution or Resolution No. 01-05 (the multifamily bond resolution adopted at the same meeting) may not at any time exceed $250,000,000.

Section 11. 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, one or more mortgage purchase and servicing agreements (including mortgage-backed security pooling agreements) with such lender or lenders as the Executive Director may select in accordance with the purposes of the Program, and any such selection of a lender or lenders is to be deemed approved by this Board as if it had been made by this Board. The mortgages to be purchased may be fixed rate, step rate, adjustable rate, graduated payment or any combination of the foregoing, may have terms of 30 years or less and may be insured by such mortgage insurers as are selected by the Executive Director 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.

Section 12. Local Agency Cooperation. (a) 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 with one or more Local Agencies providing that the Agency shall sell Local Agency Bonds for the purpose of providing funds for the Program for the purchase of Loans financing Residences within the jurisdiction of the applicable Local Agency. Each such agreement shall contain the provisions required by Section 52062 of the Local Agency Assistance Act and shall provide that the method by which the Agency shall utilize the proceeds of Local Agency Bonds in the Agency's Program shall be for the Agency to borrow such proceeds by the issuance of Bonds to the Local Agency. The Bonds shall be in the form and shall be issued under the terms and conditions authorized by this resolution, applied as appropriate under the circumstances. The Bonds shall serve as the primary source of payment of and as security for the Local Agency Bonds.

The Local Agency Bonds are hereby authorized to be sold at such time or times, on or before the day 30 days after the date on which is held the first meeting of the Board in the year 2002 at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such sale.

(b) The Executive Director is hereby authorized to circulate one or more Preliminary Official Statements relating to the Local Agency Bonds and, after the sale of the Local Agency Bonds, to execute and circulate one or more Official Statements relating to the Local Agency Bonds, and the circulation of such Preliminary Official Statements and such Official Statements to prospective and actual purchasers of the Local Agency Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Local Agency Bonds and to distribute other information and material relating to the Local Agency Bonds.

(c) The Local Agency Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. The Executive Director is hereby' authorized and directed, for and in the name and on behalf of the Agency and the Local Agency, to execute and deliver one or more purchase contracts (including one or more forward purchase agreements) relating to the Local Agency Bonds, by and among the Agency, the Treasurer, the Local Agency (if appropriate) and such underwriters or other purchasers (including, but not limited to, FNMA) 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.

(d) 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 Local Agency 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 Local Agency, and the amount of said deposit shall be applied at the time of delivery of the applicable Local Agency Bonds, as the case may be, as part of the purchase price thereof or returned to the Purchasers as provided in such purchase contract.

Section 13. **Ratification of Prior Actions.** All actions previously taken by the Agency relating to the implementation of the Program and the issuance of the Bonds, including, but not limited to, if applicable, the distribution of its Program Manual, Mortgage Purchase and Servicing Agreement, Developer Agreement, Servicer's Guide and application to originate and service loans are hereby ratified.

Section 14 **Authorization of Related Actions and Agreements.** the Executive Director and 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 consummate the issuance, sale and delivery of the Bonds and otherwise to effectuate the purposes of this resolution. Such agreements may include a tender agreement or similar agreement regarding any put option for the Bonds, agreements for the investment of moneys relating to the Bonds, reimbursement agreements relating to any credit or liquidity enhancement or put option provided for the 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, bond trustees, bond counsel and financial advisors. This resolution shall constitute separate and additional authority for the execution and delivery of such agreements and instruments without regard to any limitation in the Agency's regulations. The Agency's reimbursement obligation under any such reimbursement agreement may be a special, limited obligation or a general obligation and may, subject to the rights of the Bondholders, be secured by a pledge of the same revenues and assets that may be pledged to secure Bonds.

Section 15. **Absence of Executive Director.** In the Executive Director's absence or upon the Executive Director's authorization, 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 Comptroller of the Agency or any other person specifically authorized in writing by the Executive Director.**

SECRETARY'S CERTIFICATE

I, Sandra A. Casey-Herold, 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 01-04 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 11th day of January, 2001, 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 11th day of January, 2001.

[SEAL]

Sandra A. Casey-Herold
Secretary of the Board of
Directors of the California
Housing Finance Agency

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SECRETARY'S CERTIFICATE

I, Sandra **A.** Casey-Herold, 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 **01-04** duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the **1**lth day of January, **2001,** of which meeting all said directors had due notice; and that at said meeting said Resolution **was** adopted by the following vote:

AYES:

**NOES:**

**ABSTENTIONS:**

**ABSENT.**

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original Resolution adopted at said meeting and entered in said minutes; and that said Resolution has not been amended, modified or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

**IN WITNESS WHEREOF,** I have executed **this** certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto **this** ___ day of ____________________

**[SEAL]**

______________________________
Sandra A. Casey-Herold
Secretary of the Board of
Directors of the California
Housing Finance Agency

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State of California

# MEMORANDUM



To: Board of Directors

Date: December 28, 2000

Kenneth R. Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: ANNUAL MULTIFAMILY BOND REAUTHORIZATION RESOLUTION 01-05

Resolution 01-05 would authorize the sale and issuance of CHFA multifamily bonds (with related interest rate swaps and other financial agreements) for another year. Annual reauthorization enables us to schedule and size our bond transactions to meet the demand for loan funds throughout the year without regard to the timing of individual Board meetings.

The resolution would authorize multifamily bonds to be issued in various amounts by category, as follows:

(1) equal to the amount of prior multifamily bonds being retired, including eligible bonds of other issuers;

(2) equal to the amount of private activity bond volume cap made available for our multifamily program by the California Debt Limit Allocation Committee;

(3) up to $400 million for the combined amount of 501(c)(3) bonds, "governmental purpose" bonds, and federally-taxable multifamily bonds (in addition to any taxable bonds issued under the first category);

(4) up to $300 million for financing or refinancing the acquisition of existing multifamily loans.

Bonds would be authorized to be issued under any of the previously-approved forms of indenture as listed in the resolution. We again anticipate continuing to utilize the Multifamily Housing Revenue Bonds III indenture, which relies on the Agency's general obligation ratings of Aa3/AA- for its credit. The $468 million of bonds now outstanding under this 4-year-old indenture comprise approximately 6.5% of our $7.2 billion of debt. Our general obligation is pledged to a total of $781 million (11%) of our bonds, and $723 million of these are multifamily bonds. Our general obligation acts as the credit enhancement for our multifamily program, thus eliminating any need for us or our borrowers to rely on outside sources of credit, with their costs and programmatic restrictions.

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The resolution would also authorize the full range of related financial agreements, including contracts for investment of bond proceeds, for warehousing of mortgages pending the availability of bond proceeds, for interest rate hedging (including the continued use of interest rate swaps), and for forward delivery of bonds through August 1, 2003. In addition, the resolution would clarify that the limit on delegated contracting authority is not meant to apply to necessary services provided in the course of the Agency's issuance of bonds, e.g., contracts with bond underwriters, bond trustees, bond counsel, and financial advisors.

In order to allow for necessary overlap of authority for bond issues scheduled during the time that reauthorization is being considered, Resolution 01-05 would not expire until 30 days after the first Board meeting in the year 2002 at which there is a quorum. Likewise, last year's multifamily resolution (00-06) will not expire until 30 days after this meeting.

During 2001 we anticipate issuing multifamily bonds three times – in February, June, and October – each in connection with the CDLAC allocation meeting schedule. The proposed February transaction will be based on a small allocation granted last week from reversions by other issuers of unused 2000 volume cap. We expect each of these three transactions to include additional bonds to be authorized by this resolution, such as 501(c)(3) bonds, refunding bonds, and taxable bonds.

Attachment

krc: SA0N4KDF

# RESOLUTION NO. 01-05

## RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE ISSUANCE OF THE AGENCY'S BONDS FOR THE PURPOSE OF FINANCING MULTIFAMILY HOUSING

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 construction or development of multi-unit 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 provide such financial assistance by means of an ongoing program (the "Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments (the "Loans"); and

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;

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

Section 1. Determination of Need and Amount. 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 (the "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 of prior multifamily bonds of the Agency (or of other issuers to the extent permitted by law) to be redeemed or maturing in connection with 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;

(c) 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 of the Agency (the "Executive Director") to be intended not to be tax-exempt for federal income tax purposes, $400,000,000; and

(d) if and to the extent the Bonds are issued for the purpose of financing or refinancing the acquisition of existing Loans that finance existing Developments, or for the purpose of refinancing such Developments, $300,000,000.

Section 2. **Authorization and Timing.** The Bonds are hereby authorized to be issued at such time or times on or before the day 30 days after the date on which is held the first meeting in the year 2002 of the Board of Directors of the Agency at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the Bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase agreement providing for the issuance of such Bonds on a later date on or before August 1,2003, upon specified terms and conditions, such Bonds may be issued on such later date; and provided, further, that Bonds being issued to refund Bonds of the type described in Section 1(d) of this resolution or to refinance Developments financed by Bonds of the type described in such Section 1(d) may be issued at any time prior to the original maturity date of the original Loans financed by such Bonds.

Section 3. **Approval of Indentures, Supplemental Indentures and Certain Other Financing Documents.** (a) The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, far and on behalf and in the name of the Agency in connection with the issuance of Bonds, to execute and acknowledge and to deliver to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee (the "Trustee"), one or more new indentures (the "New Indentures"), in one or more forms similar to one or more of the following (collectively, the "Prior Indentures"):

(1) the Multi-Family Revenue Bonds (Federally Insured Loans) Indenture, dated as of April 17,1979;

(2) the Multi-Unit Rental Housing Revenue Bonds Indenture, dated as of July 12, 1979;

(3) the Rental Housing Revenue Bonds (FHA Insured Loans) Indenture, dated as of June 1,1982;

(4) the Multi-Unit Rental Housing Revenue Bonds II Indenture, dated as of September 1,1982;

(5) the Multifamily Rehabilitation Revenue Bonds, 1983 Issue A Indenture, dated as of December 1,1983;

(6) the Multifamily Housing Revenue Bond (Insured Letter of Credit 1984-I) Indenture, dated as of March 1,1984;

(7) the Housing Revenue Bond Indenture, dated as of July 1,1984;

(8) the Multifamily Rehabilitation Revenue Bond, 1985 Issue A, Indenture, dated as of March 1,1985;

(9) the form of indenture approved by the Board of Directors of the Agency at its May 11,1989 meeting for the Financial Guaranty Insurance Company program;

(10) the Housing Revenue Bond II Indenture, dated as of July 1,1992;

(11) the Multifamily Housing Revenue Refunding Bond Indentures, dated as of July 1, 1993 (including as originally delivered and as amended and restated);

(12) the Multifamily Housing Revenue Bond (Tara Village Apartments), 1994 Series A, Indenture, dated as of November 1,1994;

(13) the Multifamily Housing Revenue Bond (FHA Insured Mortgage Loans) Indenture, dated February 1, 1995;

(14) the Multifamily Housing Revenue Bond 11 Indenture, dated as of October 1, 1995;

(15) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1,1997;

(16) the form of commercial paper note indenture presented to the May 11, 2000 meeting of the Agency; or

(17) the Multifamily Loan Purchase Bond Indenture, dated as of July 1, 2000.

Each such New Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

(b) For each series of Bonds, the Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of Bonds, a supplemental indenture (a "Supplemental Indenture") pertaining to such series in substantially the form of any supplemental indenture or series indenture executed in connection with any of the Prior Indentures, in each case, with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the New Indentures, as appropriate, in connection with the issuance of each such series.

(c) For each series of Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, a reimbursement agreement, a letter of credit agreement or any other arrangement with respect to credit or liquidity support in substantially the forms of the reimbursement agreements, letter of credit agreements or other such arrangements contemplated under the New Indentures or used in connection with the bonds issued under one or more of the Prior Indentures.

(d) Any New Indenture, Supplemental Indenture or reimbursement agreement, letter of credit agreement or other such arrangement as finally executed may include such modifications as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, including, but not limited to, one or more of the following provisions:

(1) for the Agency's insured or uninsured, limited or general, obligation to pay any debt secured thereby,

(2) for a pledge of an amount of the Supplementary Bond Security Account to the extent necessary to obtain an appropriate credit rating or appropriate credit enhancement,

(3) for a pledge of additional revenues which may be released periodically to the Agency from the lien of one or more indentures heretofore entered into by the Agency, including but not limited to one or more of the following:

(A) the Prior Indentures,

(B) the Home Mortgage Revenue Bond Indenture, dated as of September 1, 1982, as amended, and

(C) the indentures under which are issued the Single Family Mortgage Bonds,

(4) for a deposit of such other available assets of the Agency in an appropriate amount in furtherance of the Program,

(5) for risk sharing provisions dividing between the Agency and any credit provider 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 the Bonds and the Developments financed by the Bonds,

(6) for a liquidity facility,

(7) for contingent or deferred interest, or

(8) for the use or application of payments or receipts under any arrangement entered into under Section 9 of this resolution.

Section 4. **Approval of Forms and Terms of Bonds.** The 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 Indenture as finally approved shall provide. The 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 that no Bond shall have a term in excess of fifty years or bear interest at a *stated* rate in excess of twelve percent (12%) per annum (in the case of variable rate bonds, a maximum floating interest rate of fifteen percent (15%) per annum), or, if interest is determined to be intended not to be excludable from gross income for federal income tax purposes, fifteen percent (15%) per annum (in the case of taxable variable rate bonds, a maximum floating interest rate of twenty-five percent (25%) per annum). Commercial paper shall be treated for these purposes as variable rate bonds. Any of the Bonds and the 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 and to accommodate other credit enhancement.

Section 5. 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 statement and such official statement 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.

Section 6. Authorization of Sale of Bonds, The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. 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 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 applied at the time of delivery of the Bonds as part of the purchase price thereof or retumed to the Purchasers as provided in such agreement.

Section 7. Authorization of Execution of Bonds. The Executive Director is hereby authorized and directed to execute, and the Secretary of this Board 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 New Indenture or Supplemental Indenture in one or more of the forms set forth in such New Indenture or Supplemental Indenture.

Section 8. **Authorization of Delivery of Bonds**. The Bonds when so executed, shall be delivered to the Trustee to be authenticated by or caused to be authenticated by the Trustee. 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. Such instructions shall provide for the delivery of the Bonds to the Purchasers, upon payment of the purchase price thereof.

Section 9. **Authorization of Related Financial Agreements.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (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. To the extent authorized by 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, or (e) contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar exposure. 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.

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) to make or purchase loans to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of the issuance of bonds or the availability of bond proceeds for such purposes.

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 credit facilities for the purpose of financing the purchase of Loans on an interim basis, prior to the financing or sale of such Loans. Any such short-term 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 short-term credit facilities from the Pooled Money Investment Account authorized under this resolution or Resolution No. 01-04 (the single family bond resolution adopted at the same meeting) may not at any time exceed $250,000,000.

Section 10. 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 in connection with the Program, including, but not limited to, regulatory agreements, loan agreements, origination and servicing agreements (or other loan-to-lender documents), developer agreements, financing agreements, investment 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.

Section 11. Ratification of Prior Actions. All actions previously taken by the officers of the Agency in connection with the implementation of the Program and the issuance of the Bonds are hereby approved and ratified.

Section 12. Authorization of Related Actions and Agreements. The Treasurer, the Executive Director and 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 consummate the issuance, sale and delivery of the Bonds and otherwise to effectuate the purposes of this resolution. Such agreements may include a tender agreement or similar agreement regarding any put option for the Bonds, agreements for the investment of moneys relating to the Bonds, reimbursement agreements relating to any credit or liquidity enhancement or put option provided for the 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, bond trustees, bond counsel and financial advisors. This resolution shall constitute separate and additional authority for the execution and delivery of such agreements and instruments without regard to any limitation in the Agency's regulations. The Agency's reimbursement obligation under any such reimbursement agreement may be a special, limited obligation or a general obligation and may, subject to the rights of the Bondholders, be secured by a pledge of the same revenues and assets that may be pledged to secure Bonds.

Section 13. Absence of Executive Director. In the Executive Director's absence or upon the Executive Director's authorization, 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 Comptroller of the Agency or any other person specifically authorized in writing by the Executive Director.

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# SECRETARY'S CERTIFICATE

I, Sandra A. Casey-Herold, 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 00-05 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 11th day of January, 2001, 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 11th day of January, 2001.

[SEAL]

Sandra A. Casey-Herold
Secretary of the Board of
Directors of the California
Housing Finance Agency

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SECRETARY'S CERTIFICATE

I, Sandra A. Casey-Herold, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution 00-05 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 11th day of January, 2001, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

**AYES:**

**NOES:**

**ABSTENTIONS:**

**ABSENT:**

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

**IN WITNESS WHEREOF,** I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ____ day of ________________, _____.

[SEAL]

Sandra A. Casey-Herold
Secretary of the Board of
Directors of the California
Housing Finance Agency

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State of California

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# MEMORANDUM

To: Board of Directors

Date: December 28, 2000

Kenneth R. Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: AUTHORIZATION TO MAKE APPLICATION TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Resolution 01-06 would authorize application to CDLAC for a maximum of $600 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 01-04 and 01-05, which authorize the issuance of single family and multifamily bonds, are themselves in effect.

Recent action by the U.S. Congress raised the private activity bond volume cap from *$50* per capita to $62.50 per capita in 2001 (and $75 per capita in 2002). According to the CDLAC staff, this action, together with an estimated 1% population increase, will raise the State's volume cap ceiling by approximately $435 million, from $1.657 billion in 2000 to $2.092 billion in 2001. CDLAC is expected to meet on January 17 to officially establish the new State ceiling amount. At this same meeting CDLAC is also expected to determine amounts for each type of private activity – e.g., single family (including the division between CHFA and local issuers), multifamily, student loans, exempt facilities, industrial development. By the time of the Board meeting we may know what amounts for housing are being recommended by the CDLAC staff.

CDLAC has scheduled two rounds of allocations during 2001. Applications for the first round of allocations *are* due on January 24 for single family and on February 21 for multifamily. In the case of single family, our intention is to apply in January for the entire amount to be set aside for us on January 17 rather than request that an amount be retained for the second round. Because multifamily applications must be made on a project-specific basis and Board approvals take place throughout the year, we expect to apply for both of the planned allocation rounds.

The amounts proposed in the resolution are greater than we would expect to apply for. However, the presumption is that the Board would not want CHFA to be ineligible to apply for more if the volume cap increase together with unforeseen circumstances made large amounts of allocation available later in the year.

The attached table shows the amount of volume cap allocated to CHFA and to local housing issuers over the past several years.

Attachment

# CDLAC Allocations 1996 - 2000

12/27/00

| | | Multifamily | | | Single Family | | |
|---|---|---|---|---|---|---|---|
| Year | Volume Cap | Total | To CHFA | % of Total | Total* | To CHFA | % of Total |
| 1996 | 1,571,550,000 | 352,560,635 | 37,200,000 | 10.6% | 926,033,496 | 408,800,000 | 44.1% |
| 1997 | 1,593,911,700 | 515,981,331 | 147,575,000 | 28.6% | 707,873,434 | 317,512,970 | 44.9% |
| 1998 | 1,613,415,000 | 852,876,801 | 56,060,000 | 6.6% | 428,854,349 | 228,862,068 | 53.4% |
| 1999 | 1,633,327,500 | 892,101,775 | 36,782,500 | 4.1% | 468,903,675 | 237,452,500 | 50.6% |
| 2000+ | 1,657,256,050 | 911,644,686 | 154,482,104 | 16.9% | 434,256,050 | 217,128,000 | 50.0% |
| | $8,069,460,250 | $3,525,165,228 | $432,099,604 | | $2,965,921,004 | 1,409,755,538 | |

* Includes both MRBs and MCCs but does not include the Extra Credit Teacher Home Purchase Program
+ includes amounts received through 12/27/00

RESOLUTION NO. 01-06

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 SINGLE FAMILY 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 "Single Family Program") to make lower-than-market-rate loans 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 Single Family Program;

WHEREAS, the Agency has by its Resolution No. 01-04 authorized the issuance of bonds for the Single Family 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 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 construction or development of multi-unit 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 provide such financial assistance 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; and

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 fmance the Multifamily Program;

WHEREAS, the Agency has by its Resolution No. 01-05 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 a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes;

**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 Single Family 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 $600,000,000 per year to be used in connection with bonds issued under Resolution No. 01-04 or resolutions heretofore or hereafter adopted by the Agency for the Single Family 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 for a mortgage credit certificate program or for a teacher home purchase 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. 01-05 or 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.

SECRETARY'S CERTIFICATE

I, Sandra A. Casey-Herold, 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. 01-06 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 11th day of January, 2001, 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 11th day of January, 2001.

[SEAL]

Sandra A. Casey-Herold
Secretary of the Board of
Directors of the California
Housing Finance Agency

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State of California

# MEMORANDUM

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To: Board of Directors

Date: December 28, 2000

From: Jerry Smart, Acting Single Family Programs Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: PROPOSED AMENDMENT TO BOARD RESOLUTION 91-31 CONCERNING THE SERVICING OF CHFA'S LOAN PORTFOLIO

On March 14, 1991, the CHFA Board of Directors approved Resolution 91-31 (copy attached) concerning the servicing of the Agency's loan portfolio. At that time, based on the recommendation of the bond rating agencies, the Agency sought to place limits on the dollar amount of loans serviced by any one Servicer not to exceed fifteen percent (15%) of the Agency's total outstanding dollar volume of loans, and twenty percent (20%) respectively for Master Servicers (paragraph A6 of 91-31).

CHFA has now been advised by the bond rating agencies that the servicing limitation restrictions no longer apply in today's business environment. In 1991, the Agency's portfolio was primarily composed of conventional loans with 50% private mortgage iusurance. Today the portfolio consists of approximately 85% FHA and VA insured govemment loans with Servicer warranty recourse in the event of foreclosure, presenting little or no risk to the Agency.

The business environment is now more prone to consolidate servicing to take advantage of the reduction in per capita servicing costs. Under the current Resolution, CHFA's ability to maintain quality servicing with the existing larger Servicers is unnecessarily restricted.

CHFA's Homeownership Program proposes that paragraph A6 of Resolution 91-31 be removed.

Attachments: (2)

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CHFA single Family Programs

# Portfolio Percentage by Servicer Name

| Servicer Name | Active loans | Current Unpaid Principal Balance | Percentage of Total CHFA Portfolio |
|---|---|---|---|
| Alliance Mtg. Co. | 4,879 | $386,520,132 | 8% |
| American City | 2 | $306,015 | 0% |
| Bank of America, NA | 66 | $6,709,490 | 0% |
| Bank United | 1,062 | $105,048,913 | 2% |
| Chase Manhattan Mortgage Co. | 2,986 | $272,531,592 | 5% |
| CHFA - Loan Servicing | 4,799 | $355,138,552 | 7% |
| Countrywide Home Loans, Inc. | 9,639 | $999,639,891 | 20% |
| CUNA Mutual Mortgage Corp. | 51 | $5,178,389 | 0% |
| Dovenmuehle Mortgage, Inc. | 522 | $61,759,760 | 1% |
| Essez Home Mtg. Servicing | 7 | $745,659 | 0% |
| First Mortage Coprp. | 1,604 | $161,237,449 | 3% |
| GMAC Mortgage Corp. | 1,327 | $123,833,798 | 2% |
| Guild Mortgage | 3,081 | $268,186,165 | 5% |
| Irwin Mortage Corp. | 4,033 | $336,343,936 | 7% |
| Kaufman & Broad Mortgage Co. | 38 | $5,357,511 | 0% |
| Matrix Financial Sergices | 365 | $27,090,575 | 1% |
| Mission Hills Mortgage Co. | 1,817 | $149,747,334 | 3% |
| North American Mortgage Co. | 7,390 | $745,064,883 | 15% |
| Old Kent Mtg. Servicing | 1,933 | $241,802,908 | 5% |
| Temple-Inland Mtg. | 630 | $71,834,829 | 1% |
| The Cal-Bay Mortgage Group | 182 | $23,999,443 | 0% |
| Wells Fargo Home Mortgage, Inc. | 6,668 | $715,069,891 | 14% |
| WMC Mortgage Corp. | 314 | $34,825,672 | 1% |
| **Grand Totals:** | 53,395 | $5,097,972,787 | 100% |

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RESOLUTION NO. 91-31

# RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY CONCERNING THE SERVICING OF ITS LOAN PORTFOLIO

WHEREAS, the Agency has determined that it needs to take steps to limit the risks to its loan portfolio in light of the present economic climate affecting the mortgage banking firms and savings and loan associations (hereinafter "Servicers") with which the Agency has contracted to service its loans;

WOW, THEREFORE, BE IT RESOLVED, by the California Housing Finance Agency as follows:

A. The Agency shall amend the servicing portions of its Mortgage Purchase and Servicing Agreement to incorporate the policy resolutions set out herein, more specifically, to provide for:

1. The immediate termination and immediate right to possession of its mortgage loan files and other supporting data of any Servicer upon the occurrence of one of the following events:

(a) The deterioration of a Servicer's financial condition to the point that the Agency deems it an unjustifiable risk to service its loans;

(b) The Servicer files bankruptcy or the Agency has reason to believe that bankruptcy is imminent;

(c) The Servicer is taken over by any federal or state agency or M e Agency has reason to believe that takeover is imminent;

(d) The Agency determines that the Servicer must be replaced in order to protect the interests of the bondholders.

2. If the Agency decides to retain the loan portfolio acquired pursuant to paragraph 1, it will compensate the Servicer at a price to be negotiated between the Agency and the Servicer.

3. If the Agency determines that the Servicer's financial condition is not adequate to continue servicing, the Servicer may be permitted, at the Agency's discretion, to continue to originate loans upon a service release basis to any of the Agency's current list of approved and eligible Servicers.

4. Require any Servicer, who is required by this resolution to transfer servicing, to offer said servicing to any of the Agency's current list of approved and eligible Servicers. If no approved and eligible Servicer offers to purchase said portfolio, the transferring Servicer shall transfer said loans to CHFA and CHFA will compensate the Servicer at a price to be negotiated between the Agency and the Servicer.

5. Require any Servicer desiring to transfer servicing of the Agency's loan portfolio to offer said servicing to any of the *Agency's* current list of approved and eligible servicers. If no approved and eligible Servicer offers to purchase said portfolio at a price agreeable to said Servicer, Servicer may, but is under no obligation to, *offer* to transfer its servicing to CHFA at a mutually agreeable price.

6. The *Agency* hereby limits the volume of its loans being serviced at any given point in time by any single Servicer to a dollar volume of loans not to exceed fifteen percent (150) *of* the Agency's total outstanding dollar volume of loans except where a Servicer has been selected as a Master Servicer by CHFA, the limit shall be twenty percent (20%) of the Agency's total dollar volume of outstanding loans. *Any* Servicer presently servicing a dollar volume of loans equal to or exceeding fifteen percent (15%) (twenty percent (20%) in the case of Master Servicers) of the Agency's total: loan portfolio, will be permitted to continue to service its existing loans but will be required to originate "new loans" ("new loans" for the purposes of this Resolution shall mean those loans originated pursuant to a new offering and/or commitment made after the date of this resolution) on a service release basis to any of the Agency's current list of approved and eligible Servicers to the extent that said "new loans" would put Servicer over the abovementioned limits after the new CHFA offering has been included in the calculation of the Agency's total loan portfolio.

7. CHFA may bid, at its discretion, on any servicing that is *offered* pursuant to this Resolution.

B. This Resolution shall be effective immediately and hereby ratifies and authorizes, to the extent necessary, any action taken by the Agency to effectuate the purposes and intents of this Resolution.

# SECRETARY'S CERTIFICATE

I, A. Theodore Ciattina, 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 91-31 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 14th day of March, 1991, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

**AYES:** Baldwin, Berg (for Brown), Reid (for Covitz), Coyle, Hawkins, Mazza, O'Brien, Sterpa

**NOES:** None

**ABSTENTIONS:** None

**ABSENT:** Cheng, Gordon

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 14th day of March, 1991.

SEAL

A. Theodore Giattina
Secretary of the Board of
Directors of the
California
Housing Finance Agency

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RESOLUTION 01-07

RESOLUTION AUTHORIZING AMENDMENT OF RESOLUTION 91-31 CONCERNING THE SERVICING OF CHFA'S LOAN PORTFOLIO

WHEREAS, on March 14,1991, the CHFA Board of Directors approved amending the *servicing* portions of its Mortgage Purchase and Servicing Agreement to incorporate certain policy issues pursuant to Resolution 91-31 ("Resolution of the CHFA concerning the Servicing of its Loan Portfolio");

WHEREAS, paragraph A.6 of said Resolution limits the volume of its loans being serviced by any Single Servicer;

WHEREAS, previous concern by bond rating agencies about servicing limitation restrictions are no longer applicable in today's changing business environment; and

WHEREAS, currently, servicing entities have increasingly been consolidated.

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

1. Paragraph A.6 of Resolution 91-31 concerning the cap on volume of loans being serviced by any Single Servicer is hereby deleted.

I hereby certify that this is a true and correct copy of Resolution 01-07 adopted at a duly constituted meeting of the Board of the Agency held on January 11,2001, at Millbrae, California.

ATTEST______________________

*secretary*

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# *Presentation to*

# *California Housing Finance Agency*

# *Managing Interest Rate Risk*

*Peter Block, Associate Director*

*Standard & Poor's*

*January 11, 2001*

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# S&P Rating Criteria

- Criteria provide guidelines for CHFA to manage interest rate risk
- Reserves for VRDOs sized based on stressful cash flow scenarios
- Reserves monitored through S&P Capital Adequacy Model

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# Questions

- To Hedge or Not to Hedge?
- Remoteness of Termination?
- Other Questions

# Scenario 1 – Unhedged VRDOs

- Calculate interest exposure on unhedged VRDOs. Conservative approach since it discounts internal hedges, such as mortgage life extension (low prepays) in high interest rate environments.
- S&P provides interest rates used in calculation.
- Cash flow model determines risk.

# Scenario 2 - Hedged RDOs - Termination of Hedge

## Counterparty Default Assumed

- For "terminating" DPC, calculate cost of rehedging or cost of interest exposure on unhedged VRDOs (Ex: 'AAAt' vs 'AAA' rated DPCs).
- Substitute counterparty for higher rated entity upon rating downgrade of counterparty
- If substitution is not possible and HFA's G.O. is pledged to bonds, calculate "early termination" payment AND interest exposure on unhedged VRDOs.

# Scenario 3 - Hedged VRDOs - Termination of Hedge

## Event of Default or Termination Event Assumed

- Calculate "early termination" payment based on method defined under swap contract; AND
- Calculate cost of re-hedging OR interest exposure on un-hedged VRDOs (issuer's option).

# Scenario 4 - Hedged VRDOs - No Termination of Hedge

**Basis Risk / Tax Event Assumed**

- Calculate interest exposure on tax-exempt VRDOs resulting from mismatch of variable bond rate to floating swap rate due to decline in top federal income tax rate for individuals ("tax event').
- S&P assumption is decrease top tax rate to 25% in the third through fifth year of transaction (12.5% of LIBOR) and a 20% top tax rate in the fifth through final bond year (17.5% of LIBOR).

# Scenario 4 - Hedged VRDOs - No Termination of Hedge (continued)

**Amortization Risk Assumed**

- Calculate interest exposure on un-hedged VRDOs and un-hedged swap resulting from slow and fast mortgage prepayments vis-a-vis swap notional amount amortization schedule.
- Interest rates for un-hedged VRDOs (slow prepayments) are forecasted by S&P based on our interest rate model. Interest rates for un-hedged swap (fast prepayments) equals investment rate for prepayments less swap fixed payor rate; AND
- Calculate "early termination" payment to simulate non-origination scenario OR originate low rate loans and simulate basis and amortization risks.

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