BOARD OF DIRECTORS

Thursday, January 10, 2002

The Westin
San Francisco Airport
Millbrae, California
(650) 692-3500

a.m.

8. **Portfolio Briefing.** (Margaret Alvarez)

9. **Other Board matters/Reports** ....

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

****NOTES****

HOTEL PARKING: Parking is available as follows: 1) overnight self-parking for hotel guests is $12.00 per night; and 2) rates for guests not staying at the hotel is $1.00 per hour.

FUTURE MEETING DATE: Next CHFA Board of Directors Meeting will be Wednesday, March 20, 2002, at the Holiday Inn Capitol Plaza, Sacramento, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

ORIGINAL

BOARD OF DIRECTORS

PUBLIC MEETING

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

Thursday, November 8, 2001
9:30 a.m. to 12:32 p.m.

Reported and Transcribed by: Ramona Cota

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A P P E A R A N C E S

Directors Present:

CLARK WALLACE, Chairman

RICHARD FRIEDMAN

KEN S. HOBBS

ROBERT N. KLEIN II

PAT NEAL

LUPITA OCHOA

THERESA A. PARKER

JEANNE PETERSON

Staff Present:

TOM HUGHES, General Counsel

JOJO OJIMA

For the Staff of the Auencv:

KENNETH CARLSON

ROGER KOLLIAS

LINN WARREN

KATHY WEREMIUK

LAURA WHITTALL-SCHERFEE

Counsel to the Agency:

STANLEY J. DIRKS, Orrick, Herrington & Sutcliffe

APPEARANCES (CONTINUED)

Members of the Public:

JANET FALK, California Housing Partnership Corporation

KARNEY HODGE

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P R O C E E D I N G S

THURSDAY. NOVEMBER 8 2001 MILLBRAE, CALIFORNIA 9:30 AM

CHAIRMAN WALLACE: Good morning. I would like to call the meeting to order, and to do so, have the secretary call the roll.

ROLL CALL

MS. OJIMA: Thank you. Ms. Peterson for Mr. Angelides?

MS. PETERSON: Here.

MS. OJIMA: Mr. Friedman for Ms. Bornstein?

MR. FRIEDMAN: Here.

MS, OJIMA: Ms. Neal for Ms. Contreras-Sweet?

MS. NEAL: Here.

MS. OJIMA: Mr. Czuker?

(Noresponse).

MS. OJIMA: Ms. Easton?

(No response).

OJIMA: Ms.

(Noresponse).

MS. OJIMA: Mr. Hobbs?

HOBBS: Here.

OJIMA: Mr. Klein?

MR. KLEIN: Here.

MS. OJIMA: Mr. Mozilo?

(No response).

MS, OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Here.

MS. OJIMA: Mr. Gage?

(No response).

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

MS. OCHOA: Here.

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: We have a quorum.

CHAIRMAN WALLACE: The secretary informs us we have a quorum. That's good. We'll keep going.

APPROVAL OF THE MINUTES OF THE OCTOBER 10, 2001 MEETING

You have been sent the minutes of the tele-conference call meeting of October 10, 2001. Any changes, additions, deletions from anybody? Hearing and seeing none I would accept a motion of approval.

MR. HOBBS: Mr. Chairman, I move approval.

CHAIRMAN WALLACE: Mr. Hobbs.

MS. PETERSON: Second.

CHAIRMAN WALLACE: Ms. Peterson. Any question on the motion? No discussion? Secretary, call the roll on that.

MS. OJIMA: Thank you. Ms. Peterson?

MS. PETERSON: Aye.

MS. OJIMA: Mr. Friedman?

MR. FRIEDMAN: Aye.

MS. OJIMA: Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Mr. Hobbs?

MR. HOBBS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: The minutes have been approved.

CHAIRMAN WALLACE: The minutes of the October 10 meeting are hereby approved.

CHAIRMAN/EXECUTIVE DIRECTOR COMMENTS

Item 3, Chairman/Executive Director comments. A couple of things frommy standpoint. One, I believe you have in your handouts an article on California Regional Focus by the affordable housing finance organization. On the last page it featurestop leaders in the affordable housing market. Those are terrific pictures you guys took. I would grab onto those and use them for the next 20 years. But they honor Julie Bornstein, HCD. Richard, you better take that back with you.

MR. FRIEDMAN: I will.

CHAIRMAN WALLACE: And, of course, Jeanne and Terri. That's a high honor. It sure makes you look good, you guys, almost as good as you really are. So congratulations to all three of you for that significant article in your honor.

MR. KLEIN: Mr. Chairman.

CHAIRMAN WALLACE: Yes.

MR. KLEIN: Given that so many of these distinguished people are on our Board maybe we could do a little celebrity fund raising at some point. (Laughter)

CHAIRMAN WALLACE: I'm sure they could use the money. In any case, good idea. Let me just say we have got a couple of vacancies on the Board so we are a bare quorum today. We have got six and that is the minimum necessary votes. So if any voting member feels omnipotent you can quash any item on the agenda you want just by saying no. I hope that does not come to pass.

It does call to mind, though, that there are some vacancies. Angela has chosen not to be -- Her term has expired and has chosen not to be reappointed. Ed Czuker's term has expired and has an applicationpending for renewal or re-upping. Angelo Mozilo, I think you got a copy of his letter saying he did not choose to -- His term expires, I believe later this month, and he does not choose to go on.

We are endeavoring to arrange a little function honoring all three of them. My sense is since they are all down south we should do it -- I doubt that they would come to a northern function and, unfortunately, in that regard, the first meeting in Burbank will be in May. Having said that, Terri and I have talked and we are working on some kind of a function, as we

often do, for (pause)expiring Board Members? For Board Members
whose terms have expired.

MR. HOBBS: Mr. Chairman, that word sounds much better
than ***expiring,*** thank you very much.

CHAIRMAN WALLACE: Well spoken from a guy in
wheelchair. You're right, I should not even mention that. But
we are going to try and work out a function. Do we need a
resolution or something thanking them for their service?

MS. PARKER: I think what the staff was suggesting,
particularly since I think it has been a while that we have had
Board Members who have served full terms, that we thought perhaps
having a plaque, a nice plaque made for each of them would be
appropriate, if there is consensus on that. That's what staff
was, essentially, thinking about having accomplished.

CHAIRMAN WALLACE: I don't think we need a formal
motion on that but here is your first chance to exercise
consummate power. Anybody disagree with honoring our retiring
Board Members in that way?

MS. PARKER: That's very typical of my experience of
being on boards, recognizing them in that way. I think the idea
of doing some sort of framed resolution, this would be smaller,
we could do something very nice. The seal of California.

CHAIRMAN WALLACE: Board? In agreement?

MS. NEAL: Sounds good to me.

CHAIRMAN WALLACE: *Go* forward. Terri, before she took this job, was on 29 boards so she has got great experience and we defer to your wisdom, Terri.

MS. PETERSON: And a lot of plaques.

CHAIRMAN WALLACE: Yes, that's a lot of plaques. She had to have an additionput on her home forplaques. Okay, that's kind of what -- Oh, one other thing. The continuing saga with *CAR*. As a result of our August 17 meeting with *CAR* relative to their -- What was it, AB-999? Was that the bill number?

MS. PARKER: Yes, Di is nodding.

CHAIRMAN WALLACE: To separate CaHLIF from CHFA and set up a separateboard. That was, as you will recall, stalled in the policy committee in the Assembly and resulted in our meeting with the *CAR* officers and senior management. They were going to get back to us in 30 days, Gary Thomas or Joel Singer, their CEO. We have not heard. I saw Joel at the NAR convention last week and reminded him and we had a nice little discussion. In addition Terri has called Joel. I suggested to Terri that she get to know her counterpart. She knows him, but get to know him better. Terri has called him three times since that August 17 meeting to try and move whatever we could mutually agree upon.

They had promised us, as a result of that meeting, a letter outlining things that they perceived would be helpful or that they felt would be improvement in the CaHLIF program and we have yet to see that. So I reminded Joel face-to-face last week and he promised to get back in touch with you, Terri, so we can see if there is any reality to what they are talking about. We went in more depth than that, but for the moment, the ball is in their court and he knows it.

So that's a little synopsis of the things that I had to bring forward under Item 3 and I think, wonder of wonders, *Terri*, you told me you did not have anything. You used up all your time at the last Board Meeting.

MS. PARKER: I had to think really hard, Mr. Chairman, but I do have a couple of items. The first one is to introduce our new Director of Marketing, Dawn Hulbert. Please stand, Dawn. And I think you all have at your places a copy of our new Annual Report, which Dawn assistedus in doing. She hit the ground running when she joined CHFA in completing the work on this.

I have to say that since Dawn has been here, which has really been a few short weeks, we have probably had more press than I can remember. We sent over a media report to the Agency just yesterday with a long laundry list of everything from KGO interviews to a number of articles in papers both in northern and southern California and also special articles in some special market papers. So I think we are very pleased about having Dawn. Dawn has hired a staff person who is a proven writer and we expect to really be expanding our marketing efforts.

The second thing I want to tell you about is following along the lines of marketing and production. As you are aware, we track our production on a daily, weekly and monthly basis.

And for single-family, particularly given where the market is going, we have been continuing to lower our rates to follow the market, to try to be meeting our production goal of $1 billion.

But it is not enough to just do rates. We have also looked at expanding some of the income limits that are available to us under federal law. Because we were concerned about meeting our $1 billion goal this year we have in the past tried to, given our scarce resources, make sure that the majority of that goes out to the lowest income and high cost areas. But at this particular point in time we also want to make sure that we utilize all of our resources.

So with that, we sent a bulletin to our lenders last week and have gotten significant press on this where we raised our income limits in the 40 counties that are not sort of right along the coast. The Central Valley, northern and southern inland counties, to raise their income limits to the maximum allowable by federal law. And by doing this we think that we will have a better shot at meeting our $1 billion this year, and in that sense, meet our production goals and not lose any of our scarce resources.

Also, to use this, particularly in the economic environment that we are in, to do as much economic stimulus as we possibly can in California. The Governor made that announcement and we have gotten a great deal of press abut it. Our home ownership folks are working and we are going to be tracking to see what additional lending we do because of it. We are continuing to have good production, though, and we are making loans in our Extra Credit Teacher Program and we actually have a half-dozen loans in our high cap program in the Bay Area. That program seems to be working.

Two other things. The last meeting that we did, tele-conferencing, the Board asked the staff to do an analysis of the costs associated with tele-conferencing and having meetings. That report is available also at your place. I think we noted in our comments last time that we do have contracts in place for hotels for next year but we certainly want to be using tele-conferencingwhen it is available to us. Also, to make sure that we have as full a participationby all of our Board Members as we possibly can.

The last note I want to tell you, just for your information. I'm sure many of you have read in the paper, because of the impact with the economy slowing the Governor has called on a hiring freeze of state employees and also for general fund funds to the agencies of a 15 percent reduction in their budgets. A concern is that, as I had mentioned in my comments last year, that the revenues are declining in capital gains and the Governor wants to be able to have a budget that he presents to the Legislature in January that is, obviously, in balance.

With respect to CHFA and theseministerial responsibilities of hiring freezes and reductions: Since we have no general fund we can neither contribute nor have anything taken away. We are in communication through BT&H and to the Department of Finance, essentially, talking about the uniqueness of our statutes and pursuing the appropriate exemptions for us to continue on with our work. One, so that we meet our statutory responsibilities or fiduciary responsibilities to our trustees and our bondholders: but also to continue to use CHFA as an economic stimulus in this particular environment. So we are proceeding accordingly.

Mr. Chairman, that concludes my report.

CHAIRMAN WALLACE: Thank you. Any questions from the Board or the audience on Terri's reports or mine? Let's focus on Terri's. Hearing none let's move forward into the project arena. Item 4 with Linn Warren.

RESOLUTION 01-32

MR. WARREN: Good morning. Thank you, Mr. Chairman. The first project for your consideration today is Gateway Apartments and with me today is Kathy Weremiuk, mortgage officer from our LA office.

Gateway Apartments is a 130 unit family project located in Menlo Park. It is currently owned by Mid-Peninsula Housing, a sponsor we have done a number of transactions with. What Mid-Peninsula has asked is that we consider a refinancing of this project. They have a window period for the next month or so in which they can pay off and retire an existing bond debt that was issued by the City of Menlo Park about 15 years ago. The window will not reappear until this time next year so Mid-Pen has asked us to consider this refinancing. *Also* in the project is a Section 8 contract and there are some nuances of that and we will discuss that in a minute.

But the funding request today is for a first mortgage loan in the amount of $7.9 million, **5.5** interest rate, 30 years fully amortized, bond financing and to be insured by FHA Risk Share. At this juncture, and as we have advised the Board before, that we feel it is appropriate at this time to get back into utilizing FHA Risk Share on our preservation financing work. It does allow us to do more transactions, it reduces our capital reserve cost by layering on this insurance.

In discussions with HUD recently they have actively encouraged us to get back into using Risk Share, particularly in the preservation areas. So we think it is appropriate that we go back in with HUD on this particular insurance program. On this project and another one in our agenda we will also be seeking that. So let me stop there for a moment. I will have Kathy show you some pictures of the project.

MS, WEREMIUK: This is on Willow Street in Menlo Park. It is in the Menlo Park area that is closer to East Palo Alto. The project is two complete blocks --

CHAIRMAN WALLACE: Kathy, pull the mike a little closer.

MS. WEREMIUK: Sorry. The project is two complete blocks. This is the 1200 block, this is the rental office. It is, I believe, 33 buildings in the two blocks and 130 units. This is looking down the 1100 block. The 1100 block is primarily one-bedroom structures. It is very low density, very residential, mature landscape. This is the parking for the project. There are 266 spaces; it is adequately parked. Some of it is covered and some of it is parking that abuts, I think it is Highway 114, with some sound barriers and there is street parking.

This is a typical two-story configuration. There would be two, two-bedroom units stacked on top, of two-bedroom units. This shows a little bit of what the rehab on the project is going to be. The mature trees that you see in the middle of the project, unfortunately, the root systems have raised up and they are draining all the water back into the buildings. So a good deal of the rehab work on this is removing the trees, putting in a drainage system and then putting in new trees that are adequately sized so they recreate some of the quality that is created by the landscape in the project.

There will be a new paint job and there will be new work done to all of the fences. This is a view of the tot lot. There is one tot lot in the 1200 block; they are going to be putting an additional one into the 1100 block. There are a lot of children in the project. This is the adjacent redevelopment area close to the project. It gives you a little view of the neighborhood. Most of the neighborhood, other than this, is single-familyhomes that were built in the 1950s and 1960s. It's stable, it's mature. There are a few other apartment buildings but not very many.

This is a view of the clubhouse and it is also typical of what some of the backyard areas of the project look like. Again, a view of a typical backyard and a typical entry area. This is a view into the project. The streets. Actually, the borrower is in discussions with the City of Menlo Park about closing off the streets. They have been declared private streets. If the city allows that, the security and closing off of the streets will become part of the rehab of the project.

This shows the rent structures at the property. We financed to the Section 8 that is on the property currently but we also did an underlying view of it to 50 and 60 percent rents. The project with 50 and 60 percent rents cash flows at a 1.10 debt service coverage, the 50 and 60 percent rents are in the $700s and $800s and $900s. One of the charts shows the market. We had a fairly conservative appraisal that took most of the rents from East Palo Alto rather than the Menlo Park area and the markets for the one-bedrooms are $930, $1,100 for the twos and $1,400 for the threes.

However, the yellow is the FMRs for Menlo Park. If the Section 8 were to ever be pulled back the residents would go on vouchers and the project income would double if the Section 8 did not continue. So this is an instance where the backup scenario for the project, if the Section 8 does not continue, is a much stronger scenario than the project financed with Section 8.

MR. WARREN: Let me comment on that because this is one reason that Mid-Peninsula brought this to us. *As* Kathy alluded to, the red bars, really, are comparable market rents for like projects in the area. The problem is, they are really very poor comps for where this project is located. Even though it has a Menlo Park address it is adjacent to other communities.

What Mid-Peninsula wanted to do was continue with the project-based assistance, which is our goal as well. If they had difficulty finding the refinancing on the Section 8 level then Mid-Peninsula was prepared, as Kathy indicated, to allow the contract to expire, which it expires in November of next year, and go to vouchers. The voucher payment standard is the yellow bar. So you can see that on a lot of these projects, for some borrowers, going to vouchers is an economic benefit. So what the Agency does, though, from a policy standpoint, is provides the financing to encourage them to maintain the project-base assistance and not go to vouchers'.

So this is the choice that Mid-Pen faced and one reason they came to us is because we have the same goal. This is a little bit interesting but it does give you an indication of how a county-wide rent payment standard could be applied to a project where comparable rents are actually somewhat less. That's the only reason why we are doing the 501(c)(3).

MR. HOBBS: Mr. Chairman, while he is on that point.

CHAIRMAN WALLACE: Yes, Ken.

MR. HOBBS: What happens to affordability, though,, given the backup scenario?

WARREN: The affordabilitywill stay the same. The tenants would receive vouchers. They theoretically would pay no more than what they are paying today but there would no longer be any project-base assistance. So if in the long-term on a turnover basis the units may be rented to market or some higher rent levels the tenants would then have to deal with vouchers and would not have a place to go with project-base assistance. So technically the tenants would never pay any more but they would be subject to the vagaries of having vouchers.

MS. WEREMIUK: And the standard for our underwriting is that the rents would never go higher than the tax credit rents, the 50 and 60 percent rents. So there would be restrictions to those levels.

MR. HOBBS: And the purpose of the transition fund at that point is what?

MR. WARREN: In the event that the Section 8 contract is not renewed or there is an appropriations issue with HUD, which always could exist in this, even with our best planning, then we --

MR. HOBBS: Just briefly. I think I understand, I just need that affirmation, Linn.

MR. WARREN: Okay. Yes, yes. Regardless, in any situation in which we are basing a piece of debt against the Section 8 we are requiring transition reserves. And since the project does throw off a fair amount of excess cash we also think it is appropriate that the money be used for project purposes. That's Agency policy. But we do hedge our bets two ways, with the FHA insurance and with the transition reserve in the event HUD does not appropriate the contract on a long-term basis. That's why it's there.

MR. HOBBS: Just needed to hear that, Mr. Chairman.

MR. WARREN: Briefly, let me discuss the subordinate financing. There is a subordinate loan with the City of Menlo Park which will be extended and made coterminous. There is also a loan with HCD. Since the writing of the materials we have been told that it can't be extended for the full 30 year term but I believe there is an extension that can be obtained.

MS. WEREMIUK: It can be extended out for 17 years. I believe the borrower is talking with HCD about it now.

MR. FRIEDMAN: I checked the statute quickly yesterday before I came in and I think it is a maximum total of 30 years from the initial loan.

MR. WARREN: Regardless, there is enough project cash and the loan is of such a size that we can work out a term that is acceptable to all the parties. The materials are in error from the standpoint of a regulatory agreement. Rich informs me there is one.

MR. FRIEDMAN: Or should be one.

MR. WARREN: And there should be one and we will make certain that there is one when the time comes. I think that on the Section 8, again, the borrower is Mid-Peninsula, a developer and sponsor we know very well. We are certainly comfortable with this project. We would like to recommend approval and be happy to answer any questions.

CHAIRMAN WALLACE: Staff has recommended approval. Are there questions or a motion from the Board? Pat.

MS. NEAL: A question. You mentioned that the streets were going to be made private.

MS. WEREMIUK: The streets have been already dedicated as private streets but there is still a negotiation. It is not included in our rehab scope now. There is a negotiation going on with the city about allowing them to close off the streets for security for the project since the developments take up entire city blocks.

MS. NEAL: Well, who will take care of the streets then?

MS. WEREMIUK: I believe that it's -- That's part of why it is not in the write-up, because that has not been negotiated through with the city.

MS. NEAL: So there may be additional expense to the project if they have to take care of the streets?

NEAL: Right. There could be an additional expense, however, the *HAP* contract right now is cost-based. If there was an additional expense it would be covered with a Section **8** rent increase as long as it is approved by HUD.

MR. WARREN: I'll point out, Ms. Neal, that the budget for this particular project is fairly healthy. It is a good size budget.

CHAIRMAN WALLACE: Any further questions from the Board? Yes, Bob.

KLEIN: In terms of your last point. The expense budget is extremelyhealthy. I was wondering, why would payroll be $1,987per unit. I mean, this is a great is a great organization, this is a great project. Are there some extraordinary services? Because between administration and payroll we are at $3,200 a unit here.

WARREN: Security.

WEREMIUK: There are security issues the building, which is why they want to close off the street. They want to add to the number of staff that live on site. They also have both a community room with services for children and a rental office and they provide services for the residents. So it is not just an operation, it is an operationwith services. And

HUD has allowed it in the budget so as long as it is within the D-3 limits -- as long as allows it, those kinds of expenses are allowed. But obviously there's room if this was not a Section 8.

WARREN: The way the project laid out, Mr. Klein, as Kathy indicated, it is split in two and there is a main thoroughfare that runs between the two, which may be closed off. But even though it is isolated off of Willow Avenue it is a place for non-residents to drive through and cut through and such like that. The fence does back up into a single-family area. It lends itself to security issues, which is one reason Mid-Peninsula wants to take some physical measures to make some zones which would mitigate costs and also from a livability standpoint. As Kathy indicated, there are security costs in the payroll.

MR. KLEIN: Two things: One, I am supportive of the project but it would be very helpful, knowing that Mid-Pen many times provides extra services on projects, to try and separate that out in the expense detail so that we have comparable points of comparison or benchmarks at looking at underwriting. There is another Mid-Pen project in here with also very high expenses. And these expenses are without taxes. It would really help to fully appreciate the level of services Mid-Pen is providing outside the normal scope of apartment services to have that segregated and to have just a paragraph of commentary on it.

MR. WARREN: Okay.

CHAIRMAN WALLACE: You're talking about now?

MR. KLEIN: No.

CHAIRMAN WALLACE: Or in the future?

MR. KLEIN: In the future. Particularly, this is a 501(c)(3) program. I think it is great that staff is aggressively using the power. It is a very efficient use of resources available and I think it is a good project.

CHAIRMAN WALLACE: When you come up against something that has a blip like that --

MR. WARREN: Yes.

CHAIRMAN WALLACE: If you'll explain it in your résumé I think that probably is a good idea. Any further questions from the Board? Jeanne.

MS. PETERSON: I'd just like to add to Mr. Klein's comment that not only do I support this project but I note with glee or happiness that four of the five projects that are before the Board today are using 501(c)(3) bonds, which take away from no cap, which are difficult to do. But certainly from a personal perspective, I am really happy to see that staff is being able to make those deals work.

MR. WARREN: We are happy to contribute.

CHAIRMAN WALLACE: Nice glee, Jeanne, that's good. Any further questions from the Board? The audience? Anyone? Hearing none I will accept a motion.

MS. NEAL: So moved.

CHAIRMAN WALLACE: A motion from Pat Neal.

MR. KLEIN: I second it.

CHAIRMAN WALLACE: A second, Bob Klein. Any question on themotion? Hearing and seeing none, secretary, call the roll.

OJIMA: Thank you, Mr. Chairman. Ms. Peterson?

PETERSON: Aye.

MS. OJIMA: Mr. Friedman?

MR. FRIEDMAN: Aye.

MS. OJIMA: Ms. Neal?

MS. **NEAL:** Aye.

MS. OJIMA: Mr. Hobbs?

MR. HOBBS: Aye.

MS, OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Resolution 01-32 has been approved.

CHAIRMAN WALLACE: Resolution 01-32 is hereby approved. Okay, Linn, moving on.

RESOLUTION 01-33

MR. WARREN: Yes, Mr. Chairman. Our second project for consideration is Southlake Tower. I have one typo that has some significancewhich needs to be corrected on page 798 of your materials. At the Project Summary Loan To Value section at the top center of the page you will see a notation of A & B *Loans/Value*. That should be 90 percent and not 80 percent. I'll get into that in just a moment.

Southlake Tower is a **130** unit senior project located in Oakland. This is a project that, again, has come to us for a refinancing, a sale and refinancing situation. The current owner of the property is Forest City Residential Developers, a very large commercial developer with a nationwide portfolio and experience. The current manager of the property is Christian Church Homes, who have in their own right a large portfolio of affordable projects and also run very well-respected services.

Under the existing ownership and loan structure there is an opportunity now for Forest City to sell the property. Clearly, what CCH wishes to do is to acquire the property which they have managed, really, since the project was built. There is a Section *8* contract on this particular property which expires in **2004** and I will get into the various risks on that for a moment, But let me stop there and let Kathy show you the property and then we can get into the financing of it.

MS. WEREMIUK: This is a **130** unit concrete tilt-up building in Oakland. This is three different views of the front of the building. It is on a street that has brick buildings, rental buildings that were built in the **1940s** and **1950s**. The street is very stable. The rents are market and comparable. The brick building on the right is the City of Oakland's art center, which is also on Alice Street. This street is three blocks from Lake Merritt. This is the rear view of the building.

All of the units have balconies above the first floor and I don't think there are any first floor units. There is some parking on site. A little bit of the parking is tuck-under but the building has passed our seismic safety screening. This is the lobby and entry area of the building. One of the things I would say about this building is that it is meticulous. It is in the best shape of any acquisition rehab that I have seen. This is a typical corridor. This is another view of the common area and the mailboxes. A community area in the front of the building.

These are the typical units in the building and this shows you what we -- We found a little bit of code upgrade and some deferred maintenance. The deferred maintenance in this instance is the facing on the wood cabinets. Our inspector thought that they should all be resurfaced and revamished. Most of the counter tops need a resurfacing. The vent hoods are original and need to be changed. Some of the faucets need to be changed. In the bedrooms there is a non-hardwired smoke detector which needs to be hardwired. That is really the level of deferred maintenance that we saw.

The other issue in the building, and you will see it in the write-ups, is the energy costs are very high in the building because it is not individuallymetered. That is the one upgrade that the Agency is really interested in, is working with the developer for individual metering and work with HUD on that issue as well. *Also* looking at individual metering of the gas. The gas can't be individuallymetered, which is for heating, but looking at changing the windows so that it is more energy efficient and there is less use of gas heat and a lower electricity bill. That is a risk that we would like to lower in the building.

This shows the adjacent neighborhood in Lake and the area where the residents can walk to for recreation.

This is the rent level structure. The market rents are at There's 129 ones and 1 two **so** the two isn't in this chart. The market is really at the Section 8 rent level. The Section **8** rent level is, I think, **$7** higher than the one-bedroom level right now. We underwrote the building with an underlying assumption that if the Section 8 disappeared or if the rent levels were ever ratcheted down that the building could convert to a **50** and 60 percent of median property, although the preference is to maintain the Section 8 rents and preserve the affordabilityfor the residents.

WARREN: The loan request There are two loans and I would like to spend a moment discussing the structure and why we approach it in this fashion. There is a primary loan of $6,500,000 at 5.5, 30 year fixed, 501(c)(3) also with FHA Risk Share. There is a second loan on the following page for

$820,000, 6.5, and I'll explain the rate in just a moment, 15 year, fully amortized and there is no insurance on this.

If you combine both loans you have a 90 percent loan to value. On our agreement under Risk Share with HUD, generally we do not exceed 80 percent loan to value. So to obtain FHA Risk Share, at least at this juncture with HUD, we bifurcated the loan. We put a primary loan in, basically as Kathy indicated, against the 50/60 percent rents, which is well within the underwriting standards for the area. We did a second loan, which could be viewed as a higher risk piece, which is really against a portion of the Section 8 increment, and that is the $820,000. And because it is arguably somewhat of a riskier piece of debt we have charged an incrementally higher interest rate.

We have seen this format before. Last year the Board approved Marina Towers in Vallejo with a similar structure. We think going financing structures today against Section 8 increment utilizing a shorter term B piece, if you will, is a good financing model. In the private sector today a number of other lenders are doing just this. They are making a primary loan against some appropriate affordability, 50 or 60 percent rents, which is then sold on secondary markets. But they are keeping in their own portfolio the second loan, the second B piece or risk piece.

The best analogy I can give you in the commercial mortgage-backed securitiesmarkets today, there are A, B and even

C pieces which are rated'according to the relative levels of risk. And as the Agency goes into its next phase of preservation financing, bifurcating loans based upon Section 8 incremented risk we think is an appropriate model to pursue. And this is an opportunity for us to show the Board this particular model. Plus, again, we have an LTV constraint which would not allow us to make a primary loan.

Our goal with HUD on Risk Share is to go back to them and say we would like to make large primary loans only against Section 8, provided we can get the insurance. But we are not there yet with the discussions and that will take some time.

The Section 8 contract does expire, as Kathy indicated, in 2004. We are uncertain, obviously, what HUD would do on the financing, hence the additional need for bifurcating the loan. But as in the last project, we are calling for a transition operating reserve to help us in the event that funding does not continue with the Section 8 contract. If the transition operating reserve is not required, as with all of our reserves, the monies would go for the benefit of the project and not leave the project.

Locality financing. There is a second loan that is being applied for with the City of Oakland in excess of $1.4 million. That will help with the rehabilitationand other work that is required for the property. So with that we think, again, this is a good seniorproject. This is our ability to assist

Christian Church Homes to acquire the property as their own. And again, as Ms. Peterson points out, to utilize 501(c)(3) financing with locality financing and not have to use bonds and credits. So with that I would like to recommend approval and be happy to answer any questions.

CHAIRMAN WALLACE: Questions from the Board?

MR. HOBBS: I'll defer to Mr. Klein.

CHAIRMAN WALLACE: You don't have to do that. (Laughter) He wants to defer to you, Bob.

MR. KLEIN: I thank my distinguished colleague, Mr. Hobbs. In terms of the utility side of this. They are one-bedrooms at almost $100 a month in utilities. You have highlighted that you were trying to focus on some way to get those utilities down. Even if the project is not metered individually, if it has got old refrigerators in there, the IOR of replacing those refrigerators with the benefit of current rebate programs and the financing that is available should be positive. They should have a gain to the project. Particularly when we are at a 90 percent loan to value ratio. We should be able to increase our effective NOI and help the sponsor.

I would hope that the staff would use their discretion to increase that secondary debt as necessary to give them funds to do cost-effective rehab to bring down those utilities. As a lead agency for implementing safe policy on energy conservation, this would be a great target to show that we are representing that policy well.

MR. WARREN: I think it's important to stress that on the Project Summary you will note that we have *our* standard for master-metered projects, a Utility Stabilization Reserve of **$179,000.** That capitalized cost in conjunction with what Kathy alluded to, which is the metering plan plus the energy efficiency. There is a mix we want to deal with here. We have not settled on the optimal mix for dealing with the utility issues but the sponsor clearly wishes to get into a metering situation to reduce their costs as well.

So that, *Mr.* Klein, the appliances in addition to the metering, with the appropriate reserves. And, obviously, with the way the financial aspects of the project, we have adequate cash to do all of these things. At least we think we do at this juncture. We just have to figure out what the best mix is for the project. So we will encourage all that.

MR. KLEIN: Okay. So what is the total of funds that are available for some utility conservation effort?

MS. WEREMIUK: At this point we have in the budget about $400,000 in rehab and the **$179,000** in the utility reserve. We are just beginning to get estimates on individual metering, which is about $200,000, or soft sub-metering, which requires HUD approval, which is $50,000. The windows appear to be about $240,000.

In terms of the appliances. Everything in the building is in such good shape that we did not require any appliance replacement, although we generally require that our borrowers replace with Energy Star when they replace down the road. But when a project is in stellar conditionwe don't ask them to take out an appliance that is currently functioning. But the total costs on the energy look like they are about $400. The maximum looks about to be $440,000 for the energy conservation.

MR. KLEIN: Well, I would just suggest for the staff's thoughtful consideration, we would normally see through a research institute study on conservation projects about a 40 percent energy reduction. That would produce, in this particular case about $60,000 a year. If you look at the debt service, it can support a significantly greater investment at the interest rates we are at than we may be talking about. Given that, there's other maintenance and rehab requirements that may take part of that rehab budget away.

I would also suggest that I hope we have flexibility in terms of appliances in that fromwhat I have seen of research studies on appliances, there are a number of appliances that are not Energy Star that actuallyhave a lower energy use and a lower cost. Substantially lower cost. That while some appliances are in the process for getting rated Energy Star, if other appliance manufacturers know they are the only ones that have the rating to date they are putting on a 20 or 30 percent premium, whereas they don't have as low an energy use as those going through the certificationprocess. Hopefully we are flexible and look at the base research behind those.

I know that staff is focused on it. I have confidence we are going to move in the right direction. I just think it is an important area here for focus.

WARREN: We'll look at it.

CHAIRMAN WALLACE: Okay. Ken.

MR. HOBBS': Thank you, Mr. Chairman. Just one question with regard to the wording on the City of Oakland piece. And I read it, and I read it over again, and I can't get the word expressed an interest." Do we have a deal or do we not have a deal with regard to Oakland?

CHAIRMAN WALLACE: Where are you, Ken? Is there a write-up you're referring to?

MR. HOBBS: On 793.

CHAIRMAN WALLACE: Page 792?

MR. HOBBS: Page 793, I'm sorry.

MS. WEREMIUK: The City of Oakland has a NOFA that is going out in the next week or two. They will make a determination, I think sometime in January. The staff has written us a letter saying that this is a very high priority project for them and expressed an interest in the project at the dollar amount that is required. But they obviously can't make a commitment.

HOBBS: Until they go through that.

MS. WEREMIUK: The borrower has gone through the NOFA. And one of the things that makes the project very competitive is not just that it's preservation but that the cash flow would allow the city to be paid back. That would put it in the very highest priority ranking. We can't say that we have a commitment. What we have is a strong expression of interest and competitiveness. Obviously, we will not be able to close the loan unless the city comes into the deal.

MR. HOBBS: And the NOFA would be inclusive of all 130 units? I assume it's a largerpiece. Okay.

CHAIRMAN WALLACE: Should we have the record show that Director Hobbs has expressed an interest in the City of Oakland's expression of interest?

MR. HOBBS: Thank you, Mr. Chairman. It is a wonderful project. I actually drove by it about a week ago. It is in an ideal location. The affordability is always key.

CHAIRMAN WALLACE: I grew up in that neighborhood. I learned to swim next door. It's a great project because I can swim now. Any further questions from the Board? Jeanne.

PETERSON: I would just like to make a that probably does not need to be made at this meeting, but I find it somewhat ironic and unfortunate that the very agency that has created the Risk Share program forces housing finance agencies and other lenders to create, in effect, artificial constructs and is not, at this point, willing to insure against its **own** Section 8 program. Hopefully, not only we, but we in joining forces with others will convince HUD in the future to do otherwise.

MR. WARREN: I think it's important to note that in certain lending programs there is an encouragement under the MAP process to lend against Section **8**. That same philosophy is not carried over to date to the Risk Share which is the primary insurance vehicle for housing finance agencies. And I think that is the basis of the discussion.

I would much prefer to do a single piece of debt with good insurance, it is just cleaner, and that is where we are headed with HUD. But that dialogue takes time. And yes, you are right, Ms. Peterson, that is where we want to be. We are encouraging HUD to get there but it does take time.

MS. PETERSON: Interestingly, it is almost as though the MAP program is a competitor of HFAs.

MR. WARREN: In actuality it is. It is a competitor from the standpoint that HUD resources are directed one way and not another way. That can impact adversely Risk Share.

CHAIRMAN WALLACE: What a revelation that is, Jeanne, thank you. Richard.

MR. FRIEDMAN: With the NOFA out from the City of Oakland, are they exploring other avenues of financing in the remote event that they don't get the Oakland financing?

MR. WARREN: I know we can ask the sponsor that.

MS. FALK (FROMTHEAUDIENCE): Will you repeat the question?

MR. FRIEDMAN: I guess I'mwondering what happens to the project if the city of Oakland financing does not come through.

CHAIRMAN WALLACE: Could I ask you to come forward, whomever was going to respond. Take Linn's mike and introduce yourself and your relationship to the sponsorship.

MS. FALK: I'm Janet Falk with California Housing Partnership Corporation. I am the financial consultant to the buyer here. We would probably get a short term loan from an agency like Low Income Housing Fund to bridge the time until we could go and reapply for City of Oakland funds or we would end up looking for some other kinds of alternatives. Probably going through a tax credit scenario.

I just want to echo what Ms. Peterson said earlier. This is a preservation project that, as we have talked to the current owners, there is no question that if Christian Church Homes could not buy this project it would convert to market. That is exactly their intent. Fortunately, as managing agents they had an option to purchase the property so we were able to get in there and purchase it. There are not too many of these that we can manage to do without using tax credits. I think there's a lot of reasons why. It's really important to see if we can **make** the S01(c)(3) scenario work and find a way to not use up bond cap and not use up tax credit cap. We have a situation here that works in that way. We think it is an important project.

MR. FRIEDMAN: I don't know if the project is appropriate for it or not but I believe there is an MHP NOFA out at the moment which has roughly similar terms.

MS. FALK: Well, senior projects don't qualify, essentially, under that.

MR. FRIEDMAN: That's why it wouldn't.

MS. FALK: Yes.

MR. FRIEDMAN: Okay.

CHAIRMAN WALLACE: Thank you, Janet. Any further questions? Bob.

MR. KLEIN: I would just like to say that, Janet, as an individual Board Member echoing comments we have made before and Jeanne made, it is tremendous to see individuals like you out there helping make 501(c)(3) programs work, setting up some templates and prototypes other people can use. It is critically important and it is greatly appreciated.

MS. FALK: Well, thank you, Mr. Klein. The Agency has come up with a structure that has made this possible and we really appreciate that the staff was willing to come up with a structure that works for these kinds of projects. We hope you will approve it.

CHAIRMAN WALLACE: Hooray for all of us. Okay, thank you. Any further questions from the Board? From the audience?

Hearing none the Chairman will accept a motion.

MR. HOBBS: Mr. Chairman, I will move Resolution 01-33.

CHAIRMAN WALLACE: Hobbs has made the motion.

MS. PETERSON: Support.

CHAIRMAN WALLACE: Peterson seconds. Any discussion on the motion? Hearing and seeing none, secretary, call the roll.

MS, OJIMA: Thank you, Mr. Chairman. Ms. Peterson?

MS. PETERSON: Aye.

MS. OJIMA: Mr. Friedman?

MR. FRIEDMAN: Aye.

MS, OJIMA: Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Mr. Hobbs?

MR. HOBBS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Resolution 01-33 has been approved.

CHAIRMAN WALLACE: Resolution 01-33 is hereby approved. Okay, Ken, how about Country -- Okay, Linn, how about Country Hills.

MR. WARREN: Thank you, Mr. Chairman.

CHAIRMAN WALLACE: Unless, Ken, you want to preempt him. I'll allow you to do that.

MR. WARREN: I'd be pleased to have Mr. Hobbs --

MR. HOBBS: Mr. Chairman, thank you, no thank you.

RESOLUTION 01-40

MR. **WARREN:** Thank you, Mr. Chairman. With me is Roger Kollias. Roger is amortgage officer of the program staff in the Culver City office. Roger's primary duties with the Agency are to handle refinancings of Agency loans. Roger has been with the Agency since 1983 and has a long history with these projects and is a very valuable resource for us as we work through loans such as Country Hills, which is an Agency loan that we are in the process of refinancing.

Country Hills is a 152 unit family project located in San Jose in Santa Clara County. *As* I indicated, it is currently a loan with the Agency. Again the sponsor is Mid-Peninsula. Mid-Peninsula came to us recently again with the desire to do a fair amount of rehabilitation, which Roger will discuss in just a moment. We felt this was appropriate. At the same time we would increase the affordability in the project and extend its term.

This was one of the first acquisition rehabs that the Agency financed back in 1991. At that point in time the affordability was only 20 percent at 50 and the balance was unregulated. Our goal here is to increase that to an additional 20 percent at 60, do the rehabilitation and to also extend the term.

The mortgage loan request is a first mortgage loan the amount of $9,400,000 at 6 percent. The reason we are using 6 percent is Country Hills was brought to us sometime ago as part of a number of refinancings we did in the San Jose area that had subordinate debt with the City of San Jose. This was the rate that we fixed on. There is also an existing re-funding going on with the financing which allows us, puts us basically in a 6 percent range. It is a little bit of a hybrid but this is the rate that we did settle on with the sponsors and the City of San Jose is comfortable with it. So with that, I am going to go ahead and let Roger talk about the property.

MR. KOLLIAS: Okay. Country Hills is located in the southeast area of San Jose, approximately two miles southeast of the downtown area.

CHAIRMAN WALLACE: Roger, twist that mike.

MR. KOLLIAS: I'm sorry. Okay. Country Hills is located in the southeast area of San Jose, approximately two-and-a-half miles from the downtown area. The immediate area is predominately industrial, the average age of the homes and apartments run anywhere from 20 to 50 years old. There is commercial development in the area along the major transportation arteries.

The site is irregular in shape with approximately 390 feet of frontage along the southerly side of Rancho Drive, which you are seeing right there. Rancho Drive is a two-way asphalt paved street with on-site parking. Access to Country Hills, vehicular and pedestrian, is from Rancho Drive. Rancho Drive is accessible from Capitol Expressway to the south and Monterey Road to the west. The site contains approximately 5.3 acres and in the immediate area are multifamily residential properties.

Country Hills, Inc. acquired this property in 1991 and since that time, in addition to general maintenance, they have made various repairs to the property. They have replaced domestic copper hot water lines in some of the buildings. All of the roofs have been replaced in the last five years. They replaced the second floor balconies on all the units and they have remodeled the interior of the community room.

At this juncture they wish to continue with the rehabilitation of the project and to that effect the Agency and Country Hills have worked to develop a scope of work with respect to the exterior common areas and the specific needs of the individual units. Some of the main items that will be covered will be seismic upgrade, replacement of siding, installation of energy efficient windows and sliding glass doors and completion of energy conservation items. Right here we have the tot lot area, which will be upgraded.

Here we have a typical interior courtyard to the building. As mentioned, the roofs have been replaced. These balconies have been replaced in the back. Some of these trees, as you are seeing right here, will be removed, especially those that are nearest to the buildings, which are beginning to play havoc with the structures. Landscaping will be upgraded, both cosmetically and correctively.

The concrete flat work that you see here will also receive some degree of work. The parking area will be patched, slurry sealed and restriped. We also include a handicapped/adaptable van stall adjacent to the community room. Here is another view of the courtyard. One of the major items being addressed here is the replacement of this T-111 siding and the windows and the sliding glass doors in the units. The T-111 siding is in fair to poor condition.

The Agency retained a seismic consultant to review the project. A report was prepared and the recommendations were given to the project sponsor who gave them to their structural engineer who prepared a scope of work and will supervise the seismic upgrade as well as the installation of the hardy plank siding and the windows.

Upon completion of those items, in addition to bringing the project up to current seismic specificationsper CHFA requirements, the hardy plank siding, the vapor barrier installed behind it and the new dual-panedwindows will provide a form of energy conservation for the project, which is beneficial to the tenants. Here is another view of the courtyard. Again, you can see the attractive landscape. Here is another good example of the balconies on the second level and the columns which have been replaced.

Here is a typical kitchen. One of the items that they wish to do at this time is to complete the installation of domestic copper piping in some of the buildings. Some of the buildings have been done, they wish to complete it at this time. In those units in which the copper piping is placed the units will receive new cabinets. As well as in the bathroom they will receive new cabinets and tub enclosures.

A matrix has been developedwith respect to the specific needs of the individual units which cover such things as painting, replacement of wall and floor coverings, appliances, fixtures and the like. One of the other items with respect to the exterior is the replacement of all incandescent light fixtures with energy efficient light fixtures.

At the present time, as Linn has mentioned, the Agency regulates 20 percent of the units at S0 percent. The Agency will now be regulating 20 percent, or 31 units, at 50 percent and 20 percent at 60 percent. For underwriting purposes the unrestricted were underwritten at the 60 percent rent level. At the present time, and what is the continuing intent of the sponsor, to maintain those rents at no greater than 80 percent of median income. The reason for that is two-fold. One, it is to keep in conformance with requirements for the issuance of tax-exempt 501(c)(3) revenue bonds; and secondly, it is to maintain their exemption from real property taxes.

With respect to the market: There has been some softening in some of the upper rent units and this has been going on for the last 12 months. It may continue. It is estimated it might continue for an additional 12. Right now there are some rent concessions being offered on those units but as time goes on those concessions are expected to diminish. And these are for new move-in tenants, not existing tenants.

Two of the reasons for that is that one, the softening of the market -- the economy, excuse me; and secondly, the fact that in the last three years, 1998 to 2000, rents in the San Jose area had increased by about **40** percent. Which means that they have, at this point, essentially reached at plateau. The demand is there, especially for affordable units. This project is being operated and underwritten as an affordable unit so it should maintain its economic viability.

MR. WARREN: Thank you, Roger. ***As*** Roger indicated, we have set the rents at the 50/60 percent level. The rehabilitationwill be paid through existing CHFA reserves and a line of credit that Mid-Peninsula would obtain as required. Again, we think this is an appropriate vehicle for refinancing Unfortunately, with T-111 siding this kind of stuff happens, which is why we like to get away from that whenever we can. This is a good opportunity to do it. With that I would like to *recommend* approval and we would be happy to answer any questions.

CHAIRMAN WALLACE: Questions from the Board? Bob.

MR. KLEIN: I defer to Mr. Hobbs on this one.

MR. HOBBS: Actually, Mr. Chairman, I do not. Thank you, sir.

MR. KLEIN: I do have a question, Mr. Chairman. This project was financed by CHFA in 1991 and yet today it needs $18,000 in rehab per unit. Although I am very supportive of getting the rehab done, the question I have is that it is very fortunate for us that this is a 501(c)(3) financing to accomplish this. Is it expected that we have a significant amount of our inventory that has material rehab that is going to need to be done in the next few years?

MR. WARREN: Let me answer the question this way. When I referenced the T-111 siding I did so in anticipation of somebody asking this question, so let me deal with it right away. On this particular case I think it's a function of how we handled the reserves, how we handled the rehab. To what extent was asset management aggressive in doing these things and could we have been more aggressive on this. Perhaps we could have. But I think, much to Mid-Pen's credit, they have come to us and said, we need to fix this issue and now is the time when we can do it. So that is how we got there on Country Hills. I would point out that Country Hills was actually built in 1974 so it is an old project and needs help.

Portfolio-wise, Margaret Alvarez is not here but I will attempt to speak for her on the issue. If you subscribe to the theory that every 20 years a multifamily project has to go through some degree of recapitalizationand rehab then yes, we do. We do need to do things. And one of the things I know Margaret is looking at aggressively, particularly in the Section 8 portfolio which has healthy reserves, is to embark on an aggressive utilization of those reserves to fix problems just like this and to go after it.

Traditionally what happens **is** a sponsor will put in a request. They will fix things, they might fix things out of operating expenses versus using capital reserves because that is an asset. And as time goes by any portfolio does not put in place an aggressive plan to fix things. And I know what Margaret is planning on doing, or continuing along with what she is already doing, is put a more aggressive plan in place now that the Agency's portfolio is hitting this 20 year mark. Five years ago it might not have been necessary, ten years ago it wasn't, but now it is. So the short answer to your question, Mr. Klein, is that the Agency is aware of this, the Agency knows that now is the time to do it. Now is the time for us to refinance a lot of our projects, particularly our Section 8 portfolio, and do the rehab at the same time. So the time has come to do it. It'son our radar screen, very much so.

MR. KLEIN: I certainly appreciate that and it is good to know that she is focused on aggressively using those reserves that are available, particularly since there's a number of Section 8 contracts that are ending their term soon. It would be good to make sure we capture whatever those reserves are and utilize them. So I would hope we could get a summary report at the next Board Meeting on how we are addressing this program that has been appropriately referenced here.

CHAIRMAN WALLACE: Bob, it's an excellent question you put forth. I think we should have Margaret kind of bring us up to date on the entire inventory as to where they are, how they are going abut it. It seems like the timing is appropriate. Jeanne.

MS. PETERSON: Mr. Chairman, just as a follow-up to that: It is interesting that the Section 8 projects generally have pretty substantial reserves. This project, which was primarily a market rate project, obviously those kinds of projects have even more need in some respects to be in good shape when they are competing with other market rate units, perhaps not the reserves that 100 percent assisted projects have. Along those lines I am wondering if there is a minimum replacement reserve requirement that CHFA requires into all of its deals.

MR. WARREN: I can't speak to the portfolio but I can speak to all new projects that we do. When we do a refinancing today, for example, on an existing, we require a minimum of $1,000 per unit per year initial deposit. Then we do a physical needs assessment to determine what the capital outlay is over time. One thing that we have talked about in our own portfolio--we haven't done it yet but we are talking about it--is doing a similar physical needs assessment on projects within the portfolio. Basically, what you do **by** doing that is you recalibrate your reserve requirements at the 20 year mark or the 10 year mark. Because that can change. Some projects age well, others don't.

So I think the answer to the long-termprogram is that you put yourself in a position to do a comprehensivephysical or capital needs assessment at some five or ten year increment to benchmark where you are supposed to be on your outlays. It can vary. That'swhy the minimum -- It'shard to say there is a minimum, it is almost on a case **by** case basis.

CHAIRMAN WALLACE: Okay, any other questions? Pat.

NEAL: Environmental. Will we run into any environmental cleanup problems that have not been counted into those numbers?

MR. KOLLIAS: We did conduct a Phase One environmental site assessment report. There is some asbestos-containing material in some of the roofing, the wall board systems, etcetera, but it is in good condition, non-fryable. This can be maintained in place. The **recommendation** here in one of our requirements will be the implementation of an O&M program, which is an Operation and Management program. And this is typical as to how this type of action is handled.

CHAIRMAN WALLACE: In that connection, the new buzzword out there in the Legislature and federally is ***mold.***

MS. NEAL: Yes.

CHAIRMAN WALLACE: Are we on a curve to de-mold our --

MS. NEAL: Two-hundred fifty different kinds.

CHAIRMAN WALLACE: Yes. I guess Senator Ortiz's bill is chaptered.

NEAL: Yes.

CHAIRMAN WALLACE: And that whole thing going nationwide.

NEAL: Yes.

CHAIRMAN WALLACE: I just got back from the NAR convention in Chicago. I kind of read into your inquiry here that the whole environmental status, asbestos, lead-based paint and mold and God-knows-what tomorrow, next year. We need to be on top of things even if the Legislature does not pass bills. There's 2,000 liability suits in California pending, I understand, on mold alone. That means more on the way.

MS. NEAL: And some of those pictures look a little bit suspicious that there may be mold there.

MR. WARREN: We will check. I don't believe there's mold on Country Hills but we will check. No, it is an issue and, quite frankly, I know of a couple of transactions that we have been approached to finance in which the mold did exist and the remediation of that was insufficient. I believe we passed on the potential loans because it is the sort of problem that conventional remediation to date does not always fix it. It just does not go away. That's part of the problem today. The protocols for dealing with mold I don't think are quite there yet. That's the issue.

CHAIRMAN WALLACE: I think that's true. But it's going to be.

MR. WARREN: It's going to be.

CHAIRMAN WALLACE: It's on the screen. I think we want it on our radar screen when we are doing what Bob and Pat are kind of leading to. As we look at our inventory you know that is going to be an issue. So however we deal with it is not the subject of today's decision but we need to be sensitive to that as a -- All this. As Margaret is doing her assessment I think all these things should be the subject of Board inquiry, if not proactive look-see by Margaret and her people, Terri.

MS. NEAL: And, Mr. Chairman, the other thing is, under what is progressing now there is going to have to be disclosures to any and all tenants at all times. So anything that comes down the line is going to be an increased liability and expense.

MR. WARREN: The next project we can perhaps explore it a little bit more in depth. But we have been down this path fairly extensively in the areas of lead and asbestos. The procedures you go through for disclosure are very similar. The industrynow is going to use what we did in that particular area and adapt it to the mold problem.

CHAIRMAN WALLACE: Di can get you a copy of, I think it's 732 Ortiz. And maybe that's on your report. I think it is on your legislative report. But we ought to be piping those sorts of requirements in ASAP. Okay, enough said, we're on alert. Bob.

MR. KLEIN: Just a quick question. Are we getting, an extra, inadvertent affordability benefit here? Because to get 80 percent of median and the property tax exemption, isn't the San Jose area one of those areas where the family of four, the 80 percent of median level for property tax exemption is actually capped by HUD through the reference. Therefore it's really more like 67 percent of median.

MR. WARREN: I don't know, Mr. Klein, it could very well be.

CHAIRMAN WALLACE: On the project itself now.

MR. HOBBS: Good project.

CHAIRMAN WALLACE: Any further questions from the Board or the audience? Hearing and seeing none the Chair will entertain a motion. Jeanne, I would love to have you author that.

MS. PETERSON: I would be more than happy to, Mr. Chairman.

CHAIRMAN WALLACE: Thank you. And second, Pat?

MS. NEAL: Yes, that's fine.

CHAIRMAN WALLACE: Okay. Any questions on the motion? Hearing and seeing none, secretary, call the roll.

MS. OJIMA: Thank you, Mr. Chairman. Ms. Peterson?

MS. PETERSON: Aye.

MS. OJIMA: Mr. Friedman?

MR. FRIEDMAN: Aye.

MS. OJIMA: Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Mr. Hobbs?

MR. HOBBS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

OJIMA: Resolution 01-40 has been approved.

CHAIRMAN WALLACE: Resolution 01-40 *is* hereby approved. Let's go to the Far East. It'sa one-way trip.

RESOLUTION 01-35

MR. WARREN: Mr. Chairman, Kathy is back. Our next project is the Far East building. This is a special needs program. We have a typo to correct on the Board Resolution on page 848. The Loan to Lender amount should be --

CHAIRMAN WALLACE: Page 8-4 what?

MR. WARREN: 8-4-8 is the page number in your materials. The Loan to Lender amount should be $1,700,000. The first mortgage is correct.

CHAIRMAN WALLACE: Hang on a second.

MR. WARREN: Okay.

CHAIRMAN WALLACE: On the Resolution, page 848.

MR. WARREN: Right.

CHAIRMAN WALLACE: The loan amount?

MR. WARREN: The Loan to Lender amount

CHAIRMAN WALLACE: Okay.

MR. WARREN: Currently says $700,000. It should be $1,700,000.

CHAIRMAN WALLACE: What's a million among friends?

MR. HOBBS: A million here a million there.

MS. NEAL: Pretty soon we'll be in big money.

CHAIRMAN WALLACE: Soon get to amount to something. Everett Dirksen.

MR. HOBBS: As long as we get low income housing.

MS. NEAL: Yes.

CHAIRMAN WALLACE: Okay, Linn.

MR. WARREN: Okay. Thank you, Mr. Chairman. As I said, this is a special needs project. An acquisition rehabilitation in the Little Tokyo area of Los Angeles. It is 16 units of special needs which would be comprised of units with special needs themselves, frail elderly, handicapped and homeless residents. We have a first mortgage amount request of $270,000, 3 percent special needs rate, 10 years fully amortized, tax-exempt, and a Loan to Lender amount of $1,700,000, 3 percent, 2 years, also tax-exempt. And with that I am going to let Kathy go forward on this.

WEREMIUK: The Far East building Little Tokyo. This is the building. The Far East Cafe was a Chinese restaurant in Little Tokyo. It has a long history and was very important to the The building was greatly damaged in the Northridge earthquake and this is a restoration of the building. This shows the building. It is part of a historic district and a contributing building in the district. The detailing, we don't have exterior shots but it is exquisite on the interior and the detailing would be both on the interior and exterior.

It is adjacent to what was a Buddhist Temple and was the original Japanese-American Museum. You will see that on your right. This is a look down First Street. This shows the historic district. Our building is in the middle. The white building, the tower, is Los Angeles City Hall. Little Tokyo is very close, within a mile of the downtown and City Hall area. This shows the plaza of the Japanese-American Museum, the new glass building. It is a modem museum and across the street from it is the original museum, which is next to our building. And this, another look at the Little Tokyo district, sort of the gateway into it.

This is very low income. It has a variety, as you'll see, a variety of funding sources, including *MHP*, **so** that a number of the units will be at 35 percent of median and 50 percent of median. The market rents in the area are quite high. For the studios they are ***$925*** and $1,001. Half of the units have a ten-year project-based contract **for** Section 8. Those are at $637, it covers only the studios. Then you will see the affordability for the rental units that will be subsidized.

WARREN: ***As*** Kathy indicated, this is typical of special needs projects. It's multiple layered financing, TCAC, MHP, Los Angeles --

CHAIRMAN WALLACE: More than I think I have seen in any project you have presented.

MR. WARREN: This might be a new indoor world's record, Mr. Chairman. This is --

CHAIRMAN WALLACE: God bless us, everyone. This has got to be complicated, to have all these agencies playing the game.

MR. **WARREN:** **And** it's a testament to the sponsor, the Little Tokyo Service Center. They are a very good outfit. They are very well-known in the LA area. They are very adept at putting these together. We have, actually, a very small financingpiece of it after Loan to Lender is paid off. With that we would like to certainly recommend approval, be happy to answer any questions.

CHAIRMAN WALLACE: Questions from the Board?

HOBBS: Mr. Chairman, why don't you just quickly walk through the issue of asbestos in rehab. You indicated previously you were going to.

WEREMIUK: This rehab is a gut rehab. The shell of the building will remain and as much of the historic detail as' possible. There is lead and there is asbestos. All of that will be cleared during the demolitionphase and prior to the rehab starting. The building has been tested. One of the best environmental consultants we know of is doing the work on the lead and the asbestos.

ME. HOBBS: And seismic?

MS, WEREMIUK: It's gone through seismic screening with Bill Graf. Bill is working with the project engineer. The engineer is well-versed in the preservation of historic but seismically fragile buildings. It will meet our tests.

CHAIRMAN WALLACE: I think it's a tremendous effort for 16 units.

MS. NEAL: Yes it is, yes.

CHAIRMAN WALLACE: It'sa tribute to the sponsor, I think, to have been able to put all these pieces of this puzzle together. It seems like a pretty sound project from our standpoint so I applaud you all and the sponsor for being able to pull this off. Any questions fromthe Board?

MS, NEAL: *Mr.* Chairman.

CHAIRMAN WALLACE: Pat.

MS. NEAL: I may have missed it. On the seismic, since it is a historical building, it's a preservation building, are they going to have to do any specific types of seismic that are different than are currently used?

MS. WEREMIUK: There are two answers to that. One is that they are waiting for approval from the National Parks Service to be able to put an elevator in the front of the building which will both help the frail residents and also strengthen the building from both sides. So yes, they are going to have to do some special things because they have to preserve the facade and the interior but what complicates it is the National Parks approval.

MS. NEAL: Has that been factored into the costs?

MS. WEREMIUK: Yes.

MS. NEAL: Okay.

CHAIRMAN WALLACE: Are we okay?

MR. WARREN: We are okay.

CHAIRMAN WALLACE: Do you recommend approval?

MR. WARREN: I do recommend approval, Mr. Chairman.

CHAIRMAN WALLACE: Any further questions from the Board or from the audience? Hearing and seeing none I will take a motion.

MS. NEAL: So moved.

MR. HOBBS: Second.

CHAIRMAN WALLACE: Neal and Hobbs. Any question on the motion? Hearing and seeing none, secretary, call the roll.

MS, OJIMA: Thank you, Mr. Chairman. Ms. Peterson?

MS. PETERSON: Aye.

MS. OJIMA: Mr. Friedman?

MR. FRIEDMAN: Aye.

MS. OJIMA: Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Mr. Hobbs?

HOBBS: Aye.

OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

OJIMA: Resolution 01-35 has been approved.

MR. WARREN: Thank you.

CHAIRMAN WALLACE: Resolution 01-35 is hereby approved. Congratulations.

MR. WARREN: Thank you.

CHAIRMAN WALLACE: Thank you. Delaware Street.

RESOLUTION 01-36

WARREN: Laura Whittall-Scherfee, also with our staff in Sacramento, will go through this project with us.

Delaware Street a 16 unit project San Mateo. It is a 501(c)(3) refi. A loan request of $1,380,000, 5.7 percent interest rate, 30 year amortized, fully fixed. There is a fair amount of locality involvement given the small size of the project in both HOME funds and RDA with the City and County of San Mateo. So with that I am going to let Laura take you through the project very quickly and we will go on from there.

WHITTALL-SCHERFEE: This the front of Delaware Street. It on 200 South Delaware. What you are seeing basically the entire project. There is some tuck-under parking on the left side by the gated access. On the right side you will see the garages. There are eight garage units and there are also eight tuck-under parking spots. The tuck-under parking has caused some seismic issues and that is why you will see a major part of the budget that is going towards the rehab of this project. It is going to make it seismically sound. Right now the substantial rehab to this project totals about $470,000, of which almost $150,000 of it is going towards fire code improvements and $60,000 is going towards seismic retrofitting.

The rehab to the units involves replacing kitchen counters, repainting the cabinets, recarpeting, new vinyl. Windows have already been replaced in a lot of the units and that is being completed so that is not part of the initial rehab budget because that was already done. There is going to be GFCI outlets. Hardwired smoke detectors are being placed in the bedrooms because there are none at this point. They are going to replace bathroom sinks, vanities, toilets and kitchen sinks as well.

Building improvements are going to be replacingwaste water piping, seismic retrofitting of the first floor, new carpets in the corridors. We need to improve the exterior lighting in the project and to repair fences and replace gates. And here is an example of the tuck-underparking that is through the gated access. In terms of This says Gateway Apartments. Did I go too far?

WARREN: No, the title is wrong.

WHITTALL-SCHERFEE: Oh, the title is wrong.

WARREN: You're fine.

MS, WHITTALL-SCHERFEE: This is actually Delaware. But let me talk a little bit about the --

MR. WARREN: Let's pretend it's Delaware.

MS. WHITTALL-SCHERFEE: This is Delaware. But I will talk for a minute about the fire code improvements. The fire department came through and was not altogetherpleased with the state of the fire escapes so they are being retrofitted. The 20 interior doors are being changed to half-hour fire rating doors with self-closing devices. The fire alarm system is being replaced. In the corridors there will be installed five-eighth inch rated drywall onto the walls and ceilings of the second and third floors.

This caused a substantial increase in the cost of the rehab by approximately $150,000above what was originally anticipated. Therefore, you will see that there has been some impact to the rent levels. This project has Section 8 project-based rents. They are actually committed by the housing authority and the housing authority has committed to 15 years. We are 1 year into that 15 year term. But it is subject to HUD renewal, which is why you will see in our rent review that we did not incorporate Section 8 rents into our review. Because an annual renewal we did not want to assume that those rents are there.

We had originally hoped to just be able to limit it to 65 percent rents, but because of the increased costs of these fire improvements rents had to be increased. So the rents that we based it on are those that you are seeing on the screen. The studios have 30 and 65 percent rents, the one-bedrooms have 30, 50 and 65 percent and go up to as high as 75. But because this is 501(c)(3) financing we have the same restrictions. We have limited everything to 80 percent of market. The rehab is being performed by Precision General Contractors and they intend to start the rehab in November, subject to approval by this Board.

There is a $50,000 gap at this point in time. They expect to have the $50,000 approved by the City of San Mateo in mid-January. The Board package referenced a mid-November date, however, because a new appraisal had to be ordered because the total amount of the financing exceeded 100 percent of the City's financing, including our first, it now has to go back to the city council. The good news is the appraisal came in higher than our original appraisal. It came in at $2.5 million instead of **$2.4**, but it still was not high enough to have the $50,000 subject to approval at the staff level so it has to go back to the city council.

MR. WARREN: Okay. ***As*** we said, the rents are a little bit different. ***As*** Laura indicated, we took them up a little bit to compensate for the additional cost of the project. Since it is a fairly small project and it is located in a high-demand area in San Mateo County we thought that was appropriate.

The sponsor is **HAND**, which is the Housing Assistance & Needy Disposed, Inc. We are familywith them. We have done some loans with HIP, which is their affiliate property manager. We have done a couple of small projects with them and they are based in San Mateo County. So with that, we think this is, obviously, an appropriate use of 501(c)(3) financing. We would like to *recommend* approval and be happy to answer any questions.

CHAIRMAN WALLACE: Questions from the Board? Richard.

(Tape 1 was changed to tape 2)

MS. FRIEDMAN: Yes. I noticed you are not anticipating any other relocation but you are replacing bathroom plumbing, carpets and vinyl. Do you expect to be in and out on that stuff in a day?

MS. WHITTALL-SCHERFEE: No, no. They do have some minor relocationbudget amounts included in their budget but it is just for day-type of things. This is not requiring major move-outs.

CHAIRMAN WALLACE: That's a good one. Bob.

MR. KLEIN: The debt-service coverage is a 1.09; we are at 5.70 on this interest rate.

MS. WHITTALL-SCHERFEE: Yes.

MR. KLEIN: Is there any way we can give ourselves and the sponsor anymore room on this coverage? It is difficult to operate a small project. They are taking on a challenging task, clearly they have done others. But is it possible--maybe this is a question to Ken--that in some of these cases we could start our rate at 5.50 and increase it slightly over time. They are showing a 1.25 coverage out 15, 20 years. Is it possible to give the project a little bit extra room on the front end? We have net income here, a cash flow of $8,400. It could potentially help free up our administrative time and give them some more room for some unexpected things that happen year-to-year if we could structure these with a little bit more debt service coverage on the front end. Is that possible?

MR. WARREN: I think in this particular case there is Section 8 income which is occurring that is not reflected on the cash flow so the actual cash is over that. I think it is probably appropriate for us, Mr. Klein, to revisit the rate. This was one of the projects that had been delayed and was underwritten at the 5.7 rate. I think it is probably appropriate for us to go back in and revisit that with the current rate of 5.5 and I think that is something we could probably do fairly easily.

MR. KLEIN: Okay.

CHAIRMAN WALLACE: Okay. Any other questions from the Board?

HOBBS: Mr. Chairman, just to follow on to Mr. Klein's.

CHAIRMAN WALLACE: Mr. Hobbs. You're going to defer to --

HOBBS: Were you looking for -- I'm trying to get a read. Were you looking for some room in the motion? Were you looking for --

MR. KLEIN: Mr. Hobbs, it sounds like the staff has some internal flexibility given the timing of this with the new rates that are available to the Agency. It appears that even if we go through our standard motion they have the flexibility to make those adjustments.

MR. WARREN: Yes, we do.

CHAIRMAN WALLACE: Any further questions from the Board? From the audience? If not, the Chair will entertain a motion. You seem to have something raring to go, Ken.

MR. HOBBS: Mr. Chairman, I move approval.

CHAIRMAN WALLACE: Thank you. Is there a second to that motion?

MS. NEAT;: Second.

CHAIRMAN WALLACE: Let's give it to Richard this time.

MS. NEAL: Okay. Richard.

CHAIRMAN WALLACE: Okay? Second

MS, NEAT;: He's quiet down here. He's too far away for me to kick him.

CHAIRMAN WALLACE: He had a pointed question there, I think he is entitled to it. ***Any*** questions on the motion before the body? Hearing and seeing none, secretary, call the roll.

MS, OJIMA: Thank you, Mr. Chairman Ms. Peterson?

MS, PETERSON: Aye.

MS. OJIMA: Mr. Friedman?

MR. FRIEDMAN: Aye.

MS. OJIMA: Ms. Neal?

MS, NEAL: Aye.

MS. OJIMA: Mr. Hobbs?

MR. HOBBS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Resolution 01-36 has been approved.

CHAIRMAN WALLACE: Resolution 01-36 is hereby approved. You made it, Dr. Warren.

MS. PARKER: We have three more items, Mr. Chairman.

CHAIRMAN WALLACE: I know, but he did his part.

PARKER: He did.

CHAIRMAN WALLACE: Well, he has got the next one too but you are out of the project arena. So Item 5 on our agenda.

RESOLUTION 01-37

MR. WARREN: Thank you, Mr. Chairman. Item 5 is a request for the Board to consider a delegation of issuing loan commitments for multifamily projects with total loans up to **$4** million. In your materials there is a memorandum from the Executive Director on this issue. Let me just talk about this briefly and then we can get into some of the number impactions.

One of the characteristics of our multifamily financing is that we are the preferred source of bond financing for small projects, mainly because of our pooled bond capacities. Most other projects are done with stand-alone financing. Clearly, for projects of less than **$4** million the cost to do a stand-alonebond issue is very, very high. But in our world, in the industry, there are some basic facts about small projects. The first is, smaller projects are generally developed, as in the case you saw, The Delaware, are generally developed by **small** developers and **small** business people. That seems to be the general trend. Larger developers may do an occasional inclusionary in-fill, but generally speaking, smaller operations are the ones that build the smallerprojects.

Another truth in this process is that it takes just about as long to process and take a **small** project through approval as it does a large project. It seems somewhat counter-intuitive but that seems to be the way that it works. The funding sources are often the same for both **small** and large projects, the government and locality requirements are the same. So all the same hoops and hurdles that one sees-- and again, the Far East project is a good example of that-- are really there for the **small** projects as well. So they do take just as much work. We have to cover about the same amount of work. And again, as I alluded too, the funding sources, TCAC and CDLAC and localities, are often the same for the **small** as for the large and we have to queue up and go through that.

So because of all of that you have situationswhere expedited approval for **small** projects would be a good thing. So our request in front of the Board today is to ask for your approval for us to authorize loan commitments internally for up to **$4** million. So with that let me go through a couple of components of that so we can discuss how all this works.

I thought it might be appropriate to take the Board quickly through our loan process. This is an abbreviated flow chart. Basically, what the Agency does is we have what we call a pre-application or a pre-app review in which we look at the design of the project and we look at preliminary numbers to determine financial feasibility before we encourage an application. This is essentially a free look on behalf of the borrowers. We apply staff to go take a look at these projects, we run numbers to see if it matches our programs, and if it passes that initial muster timing then we proceed into application.

Now, the way CHFA is structured is a little bit different than a commercial bank. After the application is receivedwe then distribute the component parts of that to those disciplines within the Agency that have to pass on the project itself. The loan review is basically the underwriting programs area. The asset management role in our loan origination process is the budget, operating budget, and oftentimes the construction budget. This is particularly true on our own assets. The design area, the architectural review on new construction. We still review design, obviously, and on rehabilitation we spend a great deal of time on physical needs assessments. And as appropriate at the early stage, our legal and our finance folks are involved as is necessary.

What we then do is we bring all of these components together for review in what we refer to as a concept meeting. At the meeting is the appropriate CHFA staff, the borrower, the property manager, their architect, their construction manager, whoever is appropriate from their side, and we go through the project. We discuss all the issues. We raise what needs to be dealt with. If we have an acq-rehab then we often have a second concept meeting after the physical need assessment is completed to reevaluate the budget. But our goal is we get everybody in the room and we work through the deal.

After that is completed, in the abbreviated case, we then take the completed package to the loan committee, which at CHFA is the senior staff. At that point in time is when we go through it and ask for, essentially, approval. It is a loan committee in every sense of the term and it is similar to any loan committee I have ever dealt with in banking. We go through the issues, they are raised, and oftentimes projects are modified appropriately.

So at this juncture what we then do, what we are talking about at this juncture then, is for loans up to $4 million we would then proceed to commitment and issue the commitment at the appropriate time with the sponsors. For loans in excess of $4 million we are talking about taking those to the Board for approval. Now, where does this relate with respect to the approval process. The delegation guidelines are calling for loans up to $4 million. These are total loans. As you saw on a couple of the deals today, you could have a situation where you have multiple loans. Those have to add up to being less than or equal to $4 million.

If we have a new lending program, such as the 202 program we have described or others that come to us, that regardless of loan size we would bring the program to the Board for review and approval. And subsequent to that, if the Board deems that appropriate then we would incorporate the delegation guidelines. But we would first bring the concept of the program to the Board and get that approval first. If we have a situation where increases exceed seven percent then we would bring those to the Board anyway. I think that is consistent with our other approvals.

As I indicated with the prior flow chart, the process for underwriting the small loans will be the same as for underwriting the large loans. We see no change in that. We have our job to do, we have our checklist we go through, and we are trying to expedite the process by getting our **commitments** out a little bit earlier and not bringing them to the Board, as appropriate. But, we want to, and we will do the same level of due diligence that we do on all of our loans. And on a Board basis I would come back, obviously, and report as to what the activities have been, any issues that may have arisen, to keep the Board apprised of what these small loans are.

Now, from an exposure standpoint let me show you what this means just from numbers and dollars. I went back and I looked at the approvals from 1996. What it showedme is that for loans that are under **$4** million, **44** percent of the loans were in that range and 56 percent were larger. But what is most interesting is, for the same set of loans, 85 percent of those, the dollar amount approvedwas over the **$4** million amount and only 15 percent of the total dollar exposure was under the **$4** million.

So what that leads us to ask is, is it appropriate for the Board to spend, basically, 56 percent of its time approving 85 percent of the risk exposure to the Agency? Conversely, do you what to spend 100 percent of your time approving 100 percent of the risk? We think it is appropriate for the Board to spend half of its time approving the vast majority of its dollar risk and to leave time for the Board for other matters such as policy issues, new programs and such like that.

The other thing that is important is, because we do processing around CDLAC and TCAC guidelines, approvals have a tendency to clump together. This year we had a couple of Board Meetings in which we had in excess of nine projects per Board. As much as I love coming here and talking about nine projects, and I'm sure you love listening about them, it is time consuming and I think our time can be spent in other areas.

So I bring up this graph from a -- I do it from a banking standpoint, it is a risk and time analysis. And I think it is appropriate for us to ask for this because of the amount of time that the Board does look at the projects with exposure to the Board. So with that, I think the time has come for us to ask for this in our process. We certainly would like to recommend approval and be happy to discuss this. Perhaps Terri would like to comment on the process as well.

MS. PARKER: Thanks, Linn. I think you have done a very good job of, sort of, laying out. We have tried to, essentially, present this in a format that really presents hard evidence about what is going on. I think I'll echo two things, one thing that Linn said and then just to add one other point.

Mr. Klein, you just made a comment at one of our earlier presentations on a loan about wanting to have more information from our asset manager about the portfolio itself. We would like to be spending some time coming to the Board and informing you on those kinds of issues. We think that this provides more time to do those kinds of activities rather than having to rush **them** through when we might have six to nine projects on a list.

But I think that the second thing that is also an underpinning here is the interest to see whether or not this kind of process, in fact, can bring us more business because of an expedited process. It is most difficult for the small lenders. Every day, every hour is time, and is money to them. So we are going to be interested in seeing whether or not this can be part of a marketing exercise on us. I think there is a tremendous amount of interest in trying to reach out to every segment of our economy. Small business is a major engine and if we can, essentially, help stimulate that. I think we would like to try this as a mechanism. So, I think what we have done is brought this to you as a concept and we are seeking your approval.

CHAIRMAN WALLACE: Terri, what percentage of our loans are single family versus multifamily? Or Linn or whomever.

MS. PARKER: We did $1 billion worth of single family lending last year. We did approximately $250 million worth of multifamily lending.

CHAIRMAN WALLACE: I knew it was somewhere in that range. But apropos of that, we have delegated to the staff the single family function, which far exceeds the multifamily. I think it is a good idea. As a long-time small developer, though I do not interface with CHFA, the smaller developer cannot absorb delays, translate to costs, like most large developers can. So anything you can do to help the little guy I think' is worthwhile.

And when you couple that with the fact that we delegate the single family program--and yes, Jerry reports to us periodically and so on--1 think it is a trend in the right direction. The one caveat I have, Linn and *Terri*, is special needs. We had Far East here this morning which was -- They are so unique that I am inclined to have you, at least for the time being, in my mind, to continue to bring the special needs. Again, they are going to be, typically, what we saw here today. Complicated, and we want to expedite them. But you usually have a longer term working on special needs. They are de facto more complicated.

I would not mind having an exception -- I generally think the Board likes to see the special needs. There's a feel-good element to that when we do those. You can sense it almost every time. But leaving you the latitude if it was really going to make a difference, small developer needs faster expediting, as you have provided, I would say, come to us or give us a heads up. We have got a special needs project coming up and we are going to have to, maybe, expedite it between now and the January Board Meeting.

I just think a carve-out along those lines would make me feel a little better. But for the reasons we have all discussed I like the concept. It does allow us to focus on Margaret coming to the next meeting or whatever and talking about the issues Bob has raised. Which I think are where we can do a lot more good. So I tend, with that exception, to massage it a little.

MR. WARREN: We would be pleased to bring them to the Board. And you are right, Mr. Chairman, we do enjoy bringing those to the Board because we are very proud of them. So we would be pleased to.

CHAIRMAN WALLACE: And we are too. And it is a comparatively new program, whereas multifamily has been around a long time, generically. I asked you earlier at breakfast why did you draw it at $4 million; why didn't you draw it at $5 million, etcetera. And you might touch on that.

MR. WARREN: I will. We looked at $5 million, for example, what that did from a numbers standpoint. It was almost 60 percent of the projects then would have been excluded, which we thought was a bit much. $3 million, for example, takes you down to 36 percent. So we did kind of split the middle and find an appropriate time in the middle there. We did not want to make it so small that it would not be impactive and we did not want to make it so large that fewer projects would come to the Board. So we did pick $4 million. It was nothing much more scientific than that other than we did feel it did free up the Board's time by approximately less than half.

And if we find after a period of time that maybe we need to increase or decrease it, that's something we can talk about. But I think it just seemed to be an appropriate level and it is also consistent with the general size of small projects that we see. If you look at the CDLAC recommendations for the last two years, three to four to five million dollars seems to be the range of the small projects and they jump up a little bit to seven our eight. So our sense is, and it is not much more than that, that that's just an appropriate number for now.

MS. PARKER: Linn--To add to that, Mr. Chairman, I think I made the comment in my memo to you--the data that you have done on the Board is loans back to 1996.

MR. WARREN: Yes.

MS. PARKER: I think you also quoted me a figure that if you look at what TCAC and CDLAC have been looking at recently, that $4 million is closer to the range of, perhaps, a third.

MR. WARREN: It could be.

PARKER: And I think what I have note in *my* comment to you is although if you go back five years our expectation is that loan amounts are increasing. I think the number that we have picked, we really expect that to be probably more in the one-third range. To be less than **44** percent because the loans have grown. I think that was why we were comfortable with picking it, because it's really -- Ultimately it is not going to be that great, it is going to be less than that, but it will be at least meaningful.

CHAIRMAN WALLACE: Do you want to put a COLA on it? (Laughter) No, no, don't go there.

MS. PARKER: We don't want to be that complicated at this particular point in time.

CHAIRMAN WALLACE: I agree. No, because we will evaluate it a year from today. I'm all for it with that special needs carve-out in one way, shape or form.

WARREN: Certainly.

CHAIRMAN WALLACE: I think it is a good idea. And you have already told us you can use it promotionally and, arguably, create more business. I think that's great to have more people, small developers coming aware, solicited, that we are here to make deals for you. Who knows where that will take us. I like it. Rest of the Board? Pat.

MS. NEAL: I'm sure that you have already researched it and it fits into the statutory authority that created CHFA.

There's no problems there?

MR. HUGHES: Yes, we did specifically look at that. In presenting this we have used, actually, the term delegation in a more common usage sense than perhaps a strict legal sense. My **own** view is that what the Board is essentially doing here is approving a class, a limited class of loans, essentially in advance based on specifically defined criteria. I think looking at it that way it is consistent with the Board's power under our legislation.

MS. NEAL: I think I would feel more comfortable if you could do a little bit more of that so that I have that background. If you could look at it a little -- give me a little bit more. You don't have to do it now but I do feel that I will need it.

MR. HUGHES: Right. There are specific statutes and regulations that delegate to the Executive Director a certain level of authority. I think by narrowly defining a class of loans that essentially the Board is approving in advance, approving those criteria in advance, and allowing the staff to proceed directly to a loan commitment in those particular cases. That is not inconsistent with our legislation, is *my* --

CHAIRMAN WALLACE: We do it in single family. I guess you can --

MS. NEAL: Yes, I know you do.

CHAIRMAN WALLACE: That volume exceeds. But I understand, I understand where you come from.

MS. NEAL: Thank you.

CHAIRMAN WALLACE: Anyone else? And I'm going to ask audience too. Bob.

MR. KLEIN: Mr. Chairman, two things, general statements: One is, I think it's an excellent way to expedite the process. As you say, many of these projects are critically time sensitive, so being able to make a commitment that is predictable and doing it in a very efficient time schedule that is not dependant on Board hearing dates can be important to feasibility.

The secondpoint that I would say is that as to the information that flows back to the Board, and understanding our portfolio, understanding the needs of Special Programs, it would be important to me individuallyto have a chance to review, for example, one out of ten projects that the Chairman might select randomly. That might be special needs, that might be something else. I would think, Mr. Chairman, that actuallywith -- and I say review, not approve. In other words, the staff could approve and we would not be reversing the staff'sapproval. But it would give us the kind of information to continue our overview of the portfolio and understand from a policy perspective what we needed to do to enhance the program. Where were the opportunities, where were the challenges.

In the special needs area, Mr. Chairman, you made a very important statement that sometimes it is important in those areas, although not always, that the staff have the ability to approve. So I would hope that in the special needs area if the staff felt that it was critical to the feasibility, to make the decision, to make the approval and then bring it for review. These are small enough projects that if there is an issue we have enough resources to deal with them. Our portfolio risk is diversified significantlyand we can deal with it. So I would be supportive of this as long as there was this random review process, which I think is important to maintain our level of contact with our product that we are trying to serve and our oversight function, giving us insight to the problems that the staff is challenged with constantly.

CHAIRMAN WALLACE: Thank you, Bob. I note on the second page of *Terri's* report the third bullet, the second-to-the-last bullet. I asterisked when I got to that because it calls for them bringing us, in writing, a list at each Board Meeting telling us the projects that fit this and maybe hitting a few highlights of ones which we would have an opportunity to then inquire about.

MR. WARREN: Yes.

CHAIRMAN WALLACE: When I got to that I felt a much greater comfort.

MR. WARREN: **And** our goal, Mr. Klein, **is** not just to bring you a project name. We want to bring you the credit analysis of an appropriate form. That you are comfortable that it is the same as we have done before. That is our goal.

CHAIRMAN WALLACE: Probably in the early going, Linn and *Terri*, if we give you this authority, we would want to spend a little bit of time kind of seeing any problems or inquiring about whatever 10, 20 -- What is the volume likely to be, Linn?

MR. WARREN: We're thinking it would be 10 to 15 to 20. It really depends on the program. If the 202 program, for example, or the continuation of the 236 program begins to hit its stride, then you could be talking 20 to 30.

CHAIRMAN WALLACE: Right.

MR. WARREN: It's so hard to say. But it could take off, particularly if we promote the 501(c)(3) financing. That, I think, really will take off because then you are not clumped around award rounds. And who knows where it might go. But yes, my guess is that for the next fiscal year, 10 to 20 would be *my* guess. It could be much larger, though, next year.

CHAIRMAN WALLACE: And we would want to maybe plan on you spending a little time telling us about the list of those that you approved and any that were borderline or whatever.

MR. WARREN: Yes.

CHAIRMAN WALLACE: Any other members from the Board? Jeanne.

MS. PETERSON: Yes, Mr. Chairman. I have a question and a couple of comments, Under the delegation guidelines where it says *total* **loans** *for a project* **of $4** million. Is one to assume that that means total CHFA loans?

MR. WARREN: Yes.

MS. PETERSON: Okay. I would just like to comment that this is somewhat difficult, particularly if you are sort of a numbers nerd. You know, you like to read these reports and think about them and so on, to see them. *My* sort of initial reaction was, **44** percent of all the loans that this Board has approved in the last five years, is a significant number. Whereas it is important for the Board to have time, and I do think that is a very worthwhile and important public policy goal, that's what boards are supposed to do really, is to set policies and discuss big issues, set guidelines and parameters for programs.

But it also is an important responsibility, I think, of Board Members to be involved in the projects which they are approving. It is a little bit difficult. I too, like the Chairman, asked Mr. Warren where the **$4** million came from, what percentage it did represent. Whereas, I appreciate what the Executive Director is saying, that it really may be more like a third, which gives me a bigger comfort level, quite frankly, if it is a bit less than this high percentage.

I think that it also speaks very well of the Board's belief in the responsible performance of staff, quite frankly, that it is considering this resolution. I would be supportive of it. I would like to see added to the resolution, and I realize we do not yet have a motion on the floor, a reevaluation of this program in 12 months after its inception.

CHAIRMAN WALLACE: I think that's a good idea. Anyone else on the Board? Bob again.

MR. KLEIN: I would just like to formalize my point when a motion comes before us to have the Chairman randomly select one out of every ten projects for a full presentation, although it is for reviewpresentation. The Board could at that time augment the resources to the project to provide better debt service coverage, more reserves, but would not -- there would be no issue in that review of reversing the staff decision. So it would be full predictability in the program.

CHAIRMAN WALLACE: Okay. I always get together with staff precedent to these meetings so it would not be hard. I guess, Linn, we could work that out but I think that is probably a good idea. Certainly in the formative stages, the early stages. Twelvemonths out we can see how it is going. Anyone else?

HOBBS: Mr. Chairman, I guess I'm the only one that has not commented. I have watched the Agency grow and come a great distance in the last, it's been seven years or so, and I have always been a supportivemember of the Board when it comes to the facilitation of our programs in an expedited manner to the market. I think this is another example of staff sensing and understanding the market and positioning the Agency, policy and positioning the Agency, in a manner that we can be better responsive to the needs of low-mod income building.

I would be strongly supportive, certainly with the incorporation of both addenda. So if a motion is in order I would move that with Bob's trailer.

CHAIRMAN WALLACE: And Jeanne's?

MR. HOBBS: And Jeanne's trailer as well.

CHAIRMAN WALLACE: Why don't we put that as a motion. Is there a second to that?

KLEIN: I would second.

CHAIRMAN WALLACE: Mr. Klein. Let me ask the audience. Janet, I would like to hear from you. Karney?

MR. HODGE: That's a good idea.

CHAIRMAN WALLACE: Let the record show that was Karney Hodge who said, "that's a good idea." Anyone else, though? Janet.

MS. FALK: Yes. Janet Falk, California Housing Partnership Corporation. As I represent several borrowers who do a lot of work with the Agency I just would like to let you know that there is public support out there for this proposal. I think it will help expedite certain types of loans. I deal with a lot of different lenders. I can tell you, certainly, that your staff is very thorough in their underwriting and very complete. I don't think you have anything to worry about if you delegate to them. So from my standpoint, we certainly go through a very thorough process when we deal with the Agency.

MR. WARREN: I'll take that.

MS. FALK: And we still come back. (Laughter) I just wanted to let you know that, thank you.

CHAIRMAN WALLACE: Is there any sense on your part or Linn's part, for example, of the potential time savings that might occur here? They're all over the --

MR. WARREN: I think so. I think that at a minimum you have the three days that has to do with the Board timing. But think, more importantly, the way I would view it is that we often, to meet the time frames we often tell sponsors to get it done by this date so we can meet this window. So we occasionally play catch-up on issues. The real goal for this is to tell sponsors we can do this internally but when you're ready bring it to us so we can go through and get it all done at the same time. That's one of the real benefits. That is my perception, that we can act on a complete package versus an incomplete package. I think there's great savings there.

MS. FALK: And that will certainly make it easier for the borrowers as well. To be able to come through and have the whole package put together.

CHAIRMAN WALLACE: Anyone else? Thank you, Janet. Anyone else from the audience? Pat, you requested some additional legal backup from Tom.

MS. NEAL: Yes.

CHAIRMAN WALLACE: Are you impliedly saying you don't want to vote today?

MS. NEAL: No, I'll vote.

CHAIRMAN WALLACE: Okay.

MS. NEAL: But I would still like to have the backup.

CHAIRMAN WALLACE: Yes, sure.

MR. HUGHES: We will do that.

CHAIRMAN WALLACE: Okay. Okay. We have a motion before s. Any further discussion on the motion? Hearing and seeing none, secretary, call the roll.

MS. OJIMA: Thank you, Mr. Chairman. Ms. Peterson?

MS. PETERSON: Aye.

MS. OJIMA: Mr. Friedman?

MR. FRIEDMAN: Aye.

MS. OJIMA: Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Mr. Hobbs?

MR. HOBBS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: I apologize; let me back up. Ken put in two elements having to do with a reevaluation within 12 months and Bob's having to do with the Chairman selecting one or two projects for Board review. We did not settle on special needs so I am going to take it back for a moment. What do you want to do with special needs? I put my views on the table. I would like, and arguably Bob's amendment could over, but I do not think that was directed specifically to specialneeds.

MR. KLEIN: Mr. Chairman, in terms of my amendment: If I stated it that in addition to selecting one out of ten randomly the Chairman, at his discretion, could bring any special needs project forward for review, would that work?

CHAIRMAN WALLACE: Yes, that would work. Linn and I and Terri have talked about this and I have made this view known to them. Linn, I think, acceded to maybe for the time being, the first 12 months, all special needs projects would come to the Board. Are you uncomfortable? Am I right, Linn?

MR. WARREN: I am comfortable with that, Mr. Chairman. I think given the nature of those projects, I think that provided that we have the ability in certain circumstances to expedite it and bring it for review if necessary, but otherwise we would bring it to the Board, those special needs to the Board for approval.

CHAIRMAN WALLACE: Yes. I would kind of like that in there as a third leg of the amendment.

MR. KLEIN: Mr. Chairman, you inferred earlier that on special needs that you might be comfortable, if there was a time exigency, for them to approve it and bring that project for review.

CHAIRMAN WALLACE: Absolutely.

MR. KLEIN: Is that something that could be incorporated here?

CHAIRMAN WALLACE: Yes. So it should read, as a third leg to this: All special needs projects, regardless of size, would continue to be presented to the Board for approval. However, if the Executive Director or her designee decides that a time requirement is such on a special needs project that staff take action pursuant to this policy, this resolution, Executive Director or designee would have that authority and subsequently report at the ensuing Board Meeting. Now, that's a hell of a mouthful but if you can incorporate that concept I'm very comfortable.

MR. HUGHES: There may be two ways to address the amendments to the existing resolution. One would be, of course --

CHAIRMAN WALLACE: Your way and *my* way. I'll take your way.

MR. HUGHES: Well. The Board may want to consider the two possibilities, which would be to amend this resolution to specifically write in those program requirements into the resolution. Item number one in the resolution does, essentially, grant the Executive Director the authority to create a process. As an alternative the Board could simply direct the Executive

Director. We can essentially use the resolution as is but the process created by the Executive Director would incorporate those particular points. It is a question of how the Board would like to proceed.

CHAIRMAN WALLACE: That's fine. There are three points that we have asked to amend so the resolution as drafted allows the Executive Director to incorporate those into her final processing.

MR. KLEIN: Mr. Chairman, respectfully, I think it's appropriate. We have goodminutes and the resolution could be amended to explicitly incorporate these points rather than put them into the process.

MS, PARKER: The resolution should be amended to include them.

MR. KLEIN: Okay. It sounds like the Director is supportive of that.

CHAIRMAN WALLACE: Well, you have the sense of these three issues.

MS. PARKER: I'vewritten them down.

CHAIRMAN WALLACE: Probably better than we expressed them. Having said that may I ask for the resolution to incorporate the sense of those three issues that have been brought forward as amendments and that the resolution be re-voted on incorporating those. Okay?

MR. HOBBS: That is certainly acceptable to the motion maker if you want to do it on the same motion. Or I can remove the motion and start over, Mr. Chairman.

CHAIRMAN WALLACE: Why don't you, Ken. If you and the seconder would remove the motion and then include it in its subsequent form. I think that's cleaner.

MR. HOBBS: Thank you, Mr. Chairman. I will remove my motion, the motion not having been voted on.

CHAIRMAN WALLACE: Was Klein the second?

MR. KLEIN: And I would remove mine.

CHAIRMAN WALLACE: Okay. And now if you will kind of give us some floss we'll --

MR. HOBBS: Mr. Chairman, I'll defer to my distinguished colleague. He has most of the wording already on his tongue so I will simply second it.

CHAIRMAN WALLACE: Let's reverse the roles. Klein.

MR. KLEIN: I would make a motion as recommended by the staff with three amendments to it. I believe those amendments have been stated for the record and we can incorporate them through the efforts of counsel and the Executive Director. With the understanding of what has been stated on the record I would move the motion with those three modifications.

MR. HOBBS: I'll second that, Mr. Chairman.

CHAIRMAN WALLACE: We have a motion by Klein and a second by Hobbs on the motion as submitted to include the three amendments having to do with program evaluation in 12 months, Chairman selecting one or two projects for review at Board Meetings and a policy regarding special needs. Are we okay with that? Any discussion fromthe Board or the audience on that motion? Hearing and seeing none, secretary, call the roll.

MS. OJIMA: Thank you, Mr. Chairman. Ms. Peterson?

MS. PETERSON: Well. Aye.

MS. OJIMA: Thank you, Ms. Peterson. Mr. Friedman?

MR. FRIEDMAN: In a motion of deja vu I vote, aye.

MS. OJIMA: Thank you, Mr. Friedman. Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Mr. Hobbs?

MR. HOBBS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Resolution 01-37 with the amendments has been approved.

CHAIRMAN WALLACE: Resolution 01-37 as amended has been approved.

MR. WARREN: Thank you, Mr. Chairman.

CHAIRMAN WALLACE: Thank you. Item 6, D&O.

MS. PARKER: Tom.

MR. HUGHES: Thank you, Mr. Chairman and Board Members. This item has been before the Board a number of times and when we last visited it we were directed to report back the status of the Agency's attempts to obtain a cost-effective directors and officers insurance policy. Because the various directors that have been at the meetings have changed somewhat let me very briefly reiterate the history of our discussion in connection with this insurance.

Over the past several Board discussions that have visited this three concerns, really, arose. One was, essentially, a concern over the degree of personal exposure that Board Members might have. A second --

CHAIRMAN WALLACE: Tom, let me interrupt, I apologize. Pat, you have to leave at high noon?

MS. NEAL: Correct.

CHAIRMAN WALLACE: Eleven minutes away.

MR. HUGHES: Okay.

CHAIRMAN WALLACE: And I think we badly need to take up Item 7 while you are here.

MS. NEAL: Okay.

CHAIRMAN WALLACE: Because absent you we do not have a quorum. Arguably, this item'is not quite as critical.

MR. HUGHES: I think that's correct. My recommendation is that the Board need not take action'on it so I think that is consistent with taking Item 7 first.

CHAIRMAN WALLACE: Yes. So could I please, excuse us, set Item 6 aside and jump to Item 7, if you please. Thank you.

And toward that end, Ken Carlson will make the presentation on Item 7.

RESOLUTION 01-39

MR. **CARLSON:** Thank you, Mr. Chairman. I apologize for not suggesting that a fewminutes earlier. This item on page **874** of your booklet. There is a resolution there, Resolution 01-39 and an accompanying new trust indenture. What we would be doing here is amending last January's financing resolution, 01-**04**, 01-05. The purpose is to provide us with a lower cost technique for managing tax-exempt authority.

Noting to Ms. Peterson, that tax authority sometimes comes in inconveniently sized lumps at the wrong time and we need to spread it out throughout the year for more convenient use. This year I noticed that we sold about $300 million of notes that could just as easily have been done under this other system and we spent about $600,000 in transaction costs. We might have saved half of that amount. There are some economic reasons why, under some circumstances, we would prefer to do it the old way, but under today's economic circumstances this new method sounds more cost-effective. I would very much like you to approve Resolution 01-39.

CHAIRMAN **WALLACE:** Richard, for you and Bob who stepped out of the room for a minute, we have jumped over Item 6 on to Item 7 because of Pat needing to leave and we need to take action definitively today, if at all possible, on Item 7. We are going to come back to Item 6.

So Ken has just made a presentation under Item 7 asking for Board approval of this resolution, 01-39, to give the Agency the authority to include draw-down bonds in his annual package authority that we grant him at the first of each year, Resolutions 04 and 05 wherein we allow him to act in-between Board Meetings. He wants to add draw-down bonds to that list and has just explained that it could effect considerable cost savings.

That is the issue now before us. Would you like him to go back? You have, undoubtedly, read his analysis. His request is that we give him the authority under Resolution 01-39 to add these draw-down bonds to his continuing authority. Any questions from the Board? Makes sense to me. He's performed miracles for years, why not give him one more in his bag of tricks. Bob.

KLEIN: I think it's a very good idea. I would appreciate it if I could get a call subsequent to the meeting --I don't want to hold up everyone's time--just to understand the mechanics of the implementation a little better. Informationally, as we go forward it will be helpful to me. But I think it is an excellent approach.

CHAIRMAN WALLACE: Anyone else from the Board? Pat?

MS. NEAT;: No.

CHAIRMAN WALLACE: The Chair will entertain a motion on this issue, 01-39, draw-down bonds.

MS. NEAL: So moved.

CHAIRMAN WALLACE: Moves.

KLEIN: Second.

CHAIRMAN WALLACE: Second, Bob. Anyone from the Board on the motion or from the audience? Hearing and seeing none, secretary, call the roll, please.

OJIMA: Thank you, Mr. Chairman. Ms. Peterson?

PETERSON: Aye.

MS. OJIMA: Mr. Friedman?

MR. FRIEDMAN: Aye.

OJIMA: Ms. Neal?

NEAL: Aye.

MS. OJIMA: Mr. Hobbs?

MR. HOBBS: Aye.

MS. OJIMA: Mr. Klein?

MR. KLEIN: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Resolution 01-39 has been approved.

CHAIRMAN WALLACE: Resolution 01-39 is hereby approved. Thank you.

MR. CARLSON: Thank you, Mr. Chairman.

CHAIRMAN WALLACE: Thank you, Ken. Now let's go back to Item 6. And I apologize, Tom, but could you start over.' We have two key members who were not here anyway.

MR. HUGHES: Certainly.

CHAIRMAN WALLACE: It has to do with D&O insurance that is a continuing saga that we have been discussing for about a year.

RESOLUTION 01-38

MR. HUGHES: Correct, Mr. Chairman. As I indicated, when we had reviewed -- Several occasions when the Board had an opportunity to consider this matter I think it is fair to say that three concerns were expressed by the Board. Those would be, a general concern over the level of personal exposure that Board Members might have; the second one was, essentially, a concern over potential liability for punitive damages; and the third was the extent to which Board Members would be indemnified, including the actual defense of claims, by the Agency.

The first two of those issues I think we had essentiallyput to bed but I will just review them quickly. Under California law, essentially, directors have a series of immunities. The directors of this Agency have a series of immunities, including immunity for discretionary actions, immunity from the actions of other Board Members and immunity frommisrepresentation other than actual fraud. So there are a broad level of immunities that apply to the particular Board Members, in any event, and certainlymuch more than would exist in the private world.

In addition, one of the Board's concerns at one point was the extent to which punitive damages could be covered by a policy of insurance. Certainly under California law, punitive damages are generally not insurable. However, under California law, again, there is a procedure whereby a public entity may pay punitive damages in certain very limited circumstances. For a state agency that would require going back to the Legislature.

A questionwas, essentially, raised as to whether insurancemight be available in a way that would permit payment of punitive damages without going to the Legislature. We determined that that was not available legally. Then finallywe had looked at whether a policy could be written that would cover those punitive damages. While we did get a proposal from Royal Indemnity Company that removed the exclusion frompunitive damages in the policy at the end of the day the carrierwas not willing to opine that they would actually cover punitive damages to the extent allowable under state law. We, essentially, concluded that there was no assurance that we would be buying any level of effective coverage.

The third issue, which is really the one that has been out there as a realistic objective, was to see if the Agency could obtain some directors and officers insurance that would, essentially, provide a defense to claims against directors and, along with that, allow a director to be represented by outside counsel. So we had asked two different brokers to get bids. We got refusals to quote from a fair number of carriers, as indicated on the chart that has been included in the Board materials.

Really, the question arises as to whether there is any cost-effective insurance available. I will just say briefly that directors and officers insurance essentially developed over the years for a of reasons. One, some states, frankly, would not allow corporations to indemnify directors. In some cases there were concerns about the financial inability of a company to indemnify its director and neither one of those are a real concern here.

In addition, the D&O policies in two of the areas in which claims have frequently been made are securities laws issues. Obviously, in a private context where directors may take some actions and stockvalue goes down. Again, I do not think that is a concern here. And in connection with employment practices liability.

You will see in the quotes that the Agency did get that they would write the D&O coverage together with employment practices liability coverage. The market is not willing to de-link those two and one of the consequences of that is that the cost of the insurance becomes very high. I have asked the brokers why the cost is that high and, essentially, the answer appears to be that the market would underwrite CHFA as, essentially, a large nonprofit. Because of the sheer number of employees that we have the employment practices coverage that they are writing, together with D&O, would effectively create this higher level of premiums.

Historically, there have not been any claims against the Agency or its Directors for these matters. Certainly, it is a civil service agency and the likelihood of such claims, you would think, would certainly be less than in the private world. The Agency does have existing general liability coverage, which is also indicated in the chart. It does not include D&O or employment practices and we pay a total of $36,000 for that coverage with up to $10 million in excess liability coverage.

I think what our conclusion was when we reviewed this was that to add D&O and employment practices coverage was not a particularly cost-effective approach. When we had left this with the Board the prediction was that for about $25,000 we could get a D&O policy. The market simply did not reflect that when it came back with the quotes or the failure to obtain quotes. Our recommendation is that the Board simply not take any action. We will keep our antennae out into the market. If we get cost-effective coverage I certainly would be happy to look at that. But the proposals that are before the Board probably do not meet that criteria.

CHAIRMAN WALLACE: Bob.

MR. KLEIN: I wish Angelo were actually here. I think to try and get people with Angelo's background on the Board this is very important. When you look at cost-effective coverage, to me, $125,000 does not seem like a lot to cover an institution of this size. We pay, at times, $125,000 insurance on a single project annually. The importance of having real diversification in the appointments and having the Governor or the Speaker, the head of the Senate, select people that have substantial assets that are at risk, I think this is an important issue to have covered.

In terms of historical occurrences, If I looked at history I would not buy any insurance. But insurance is, in fact, a protection that the future will not necessarily represent what history has been. Certainly, we know that mold was not an issue five years ago. Three years ago it maybe began to surface. The complexity of our society creates a need for insurance because our imaginations are not as active as real experience. For an organization of this size, even if the premium is $125,000 to cover everything, I think it is appropriate.

It is also true that in the employment practices area lots of things have changed over the last decade and they continue to change. I know that this is an extremelywell-run organization but we have, as we grow, a very diverse group of people with an inability to necessarily predict all their actions. Having insurance is a prudent, conservative way to operate. So I personally think that a multi-billion dollar organization, to have this insurance cost, is extremely reasonable when on an individual project will often pay more than that, although the project may be $20 million.

CHAIRMAN WALLACE: Anyone else from the Board?

MS. PETERSON: Mr. Chairman, I apologize, I was gone for a minute, but I am wondering if Mr. Hughes talked at all about the Tort Claims Act. Because, at least it was *my* understanding, that the Tort Claims Act does offer member immunity from discretionary acts. That might assuage Mr. Klein's concerns a bit.

MR. HUGHES: I led into the discussionwith a summary of the various immunities under the Tort Claims Act. Those certainly do exist there. You know, I do not disagree with anything Mr. Klein says. When we looked at this, since the prior direction of the Board was to, and the expectation of the brokers at the time was that we would be able to obtain coverage in the range of about $25,000. Looking back at the prior Board minutes, the directions were to attempt to find coverage in that price range. What we are simply saying here is that when we went to the market we were unable to get quotes in anything quite like that price range.

MR. KLEIN: The other question: This coverage would provide counsel; is that correct?

MR. HUGHES: There is a duty to defend in the proposals that are out there. Which not all D&O policies include that but the quotes that we did get **do**, in fact, cover that.

MR. KLEIN: Because many times you may have appropriate statutory protections from tort claims or any other statutory or regulatory basis but nevertheless the cost of defense becomes a major burden. Although the ultimate resolution is that you do not have liability, you have spent substantial amounts on the cost of defense. And if you do not have a pplicy that covers the cost of defense the pressure is to have a harassment settlement rather than farce you throughpaying two or three hundred thousand for the cost of defense. If the other side knows that you have an insurance company with the duty to defend it is a deterrent to a certain class of harassment claims.

MR. HUGHES: I think just to be clear, Mr. Klein-- and I think that's correct--there's two different considerations, one from the point of you, the individual director, and one from the point of view of the Agency. The Agency is required to provide a defense under the Tort Claims Act. So from the individual director's point of view, there would be a defense provided in all but certain narrow cases involving actual fraud, corruption, etcetera. Essentially, what that would mean is that the Agency is self-insuring that obligation. The Agency would be paying it out of its own funds.

MS. PARKER: And I think we had discussed that once in one of our prior meetings. And to the extent of my discretion, there would certainly be no question about my willingness to provide the best defense to all of the Board Members present.

MR. FRIEDMAN: I would also point out that in some of these proposals, for example, we are dealing with $100,000 retentions. For example, in Item 10, the $100,000 retention, the self-insured portion, in any event, with $1 million coverage. So we are really talking about the differential between those. It is essentially a question of weighing the premium amount versus the actual coverage that you are going to get. And you can reach different conclusions. It depends on what degree you want to self-insure against that risk.

MR. KLEIN: At the $5 million limit there's also $100,000 retention.

MR. HUGHES: Correct. That's correct. And that, number one, just to be clear again, includes general liability, which the Agency does have at higher policy amounts. So I would not think that would replace the existing policy because we would not have the same level of coverage that we currently have.

CHAIRMAN WALLACE: I take a contrary opinion, Bob, with all due respect. And I would like to have it. When we were considering it at a premium level of plus-or-minus $25,000, while I wanted more facts I would consider it if that was the will of the Board and that's the sense that I have gone along with. And yes, Angelo had a right to be concerned. I have got reasonable assets but CHFA has more. And with the government immunities that I understand are built in, CHFA is going to defend me unless I commit, as a member of this Board, some fraudulent--it's not even negligent.

I think the standard is pretty broad. I have to do something personally around this Board, in essence, or commit fraud in order to not be covered and not be subject to punitive damages. Otherwise, a very substantial agency on whose board I serve, if I use reasonable criteria in making *my* decisions, and I don't commit anything fraudulent, then this Board has the assets. This Agency has the assets plus the government immunity to cover me.

So what I see us buying here, for a lot more than we had hoped it would be, is a very narrow little bit of coverage that probably the carrier is going to try to wiggle out of anyway. Or I can bring in my own counsel in lieu of the Attorney General. I am not too unhappy. I have been covered by the Attorney General when I headed the Department of Real Estate and I am not real uncomfortable about having him continue to carry me.

And that the assets of CHFA, and with the immunity imprimatur, is a heck of a lot better than some boards I serve on outside of this agency. I am just not willing to have this Agencypay $125,000 or $55,000. Frankly, at $25,000 I was personally squirming because I feel I enjoy so much broader immunity in this capacity than I do when I walk to *my* BRIDGE Housing board meeting next week or *my* First American Title Guaranty board meeting the week after.

I just think that we are covered adequately and I do not want to spend anything for this additional infinitesimal additional **coverage** that I would get when I serve in this capacity. When I get to the point where I am feeling uncomfortable with that I will resign and go off this Board. I will probably still continue to serve as a board member in *my* private capacity, where *my* immunities are no comparisonand in many cases the assets are not near what; this Agency has, who has sworn to defend me as long as I do not commit a fraudulent act or something better that you can define for me. I am just not willing to spend this. I had trouble at $25,000, even though that is a drop in the bucket.

MR. HUGHES: The Tort Claims Act, Mr. Chairman, essentially requires the Agency to indemnify and defend the Director as long as the action was within the scope of the duties of a Board Member and the Board Member is not guilty of actual fraud, corruption or malice.

CHAIRMAN WALLACE: So I am not here to endorse the commission of actual fraud or malice and so on or I do not belong here.

MR. KLEIN: But, Mr. Chairman, let's say that you do everything absolutely right and you are accused of fraud. What happens? Are you defended? Or because you have been accused of it do you have to carry your own defense?

CHAIRMAN WALLACE: I'll assume I have been accused of it because why not throw -- I serve as an expert witness in all kinds of real estate cases and I see fraud thrown up against the wall. It is very hard to prove fraud because you have to prove intent. In the meantime, it is my understanding, that my agency is going to defend me.

MR. KLEIN: Is that correct?

MR. HOBBS: Unless it's a former wife. (Laughter).

CHAIRMAN WALLACE: Unless it's what?

HOBBS: Sorry. Unless it's a former wife.

CHAIRMAN WALLACE: Oh, okay.

MR. HOBBS: For those who have been following.

CHAIRMAN WALLACE: Well, but that is not in your capacity of serving as a decision you made on this Board.

HOBBS: Mr. Chairman, I was trying bring some levity, that was all.

CHAIRMANWALLACE: I think you did. You want me to lighten up.

PARKER: Tom, response.

MR. HOBBS: If I could just interject. I really was just trying to bring some levity and make sure *my* wife was still awake back in the back. Like you, Mr. Chairman, I have been both in and out, and for the last 23 years been blessed to be a part of the public sector, both from the staff standpoint as well as from a non-staff perspective. And having known and worked under the auspices, and having been sued any number of times, I would just say I am very comfortable with the existing Agency's insurance provisions.

I have created nonprofit organizations. I have indeed had a board of directors suggest and demand D&O insurance. We have, to some extent, capitulated. Politically sometimes it is the thing to do. I am very comfortable that to the extent that we have--and this Agency has been in existence as long as it has--to the extent that we have the competency that we have on staff, counsel level and Board level --

CHAIRMAN WALLACE: And assets.

MR. HOBBS: I just do not think that there is a chance in the world that anyone is going to legitimatelybe able to secure a successful suit. It is not going to stop some former spouse, if you will, or some claim frombeing filed. And I'll agree with you, Bob, that history is certainly no dictation of what is to come, especially in the litigant society that we are in today. I just am real comfortable with the existing coverages and existing --

The lack of the ability of the private sector to provide D&O for this Board does not surprise me. In fact, I'm surprised that it is as cheap as it is. I will simply say, in a former employment down in Southern California for a board of eight members, it was a nonprofit housing board of directors, the board required it, we were paying almost $50,000. We had assets of far, far, far, far less than what CHFA does. It was a community-wide, a three-city nonprofit-type organization. It just involvedmilitary base housing. It just did not have a lot of asset basis. I know that it is simply not generally available.

CHAIRMAN WALLACE: We need some clarification from you, Tom.

HUGHES: The question asked by Mr. Klein is a very good one and one that we have thought about. Obviously, in many --

CHAIRMAN WALLACE: Repeat the question, the essence of it.

MR. HUGHES: The question was, what happens, essentially, if a claim for fraud is thrown into the mix. Does that defeat the Agency's indemnification of the Director. I would be hard-pressed to imagine that this Agency would not provide a defense. It would require an evaluation of the individual claim. But in reality, in a lawsuit a plaintiff's attorney will toss in many causes of action, everything they can think of. And they will include fraud when they feel there is a benefit to do that or just as a matter of routine. That does not mean there is anything substantial to that claim. In fact, any claim other than one that absolutely screamed abuse of the position, I would imagine the Agency would defend that claim,' would provide the defense.

CHAIRMAN WALLACE: So for the $36,129 under the liability coverage that the Agency currently pays, barring something really blatantly fraudulent, this Agency would defend us until proven othqrwise.

MR. HUGHES: The existing coverage is general liability coverage that protects the Agency primarily in connection with our REOs. We do have liability coverage there. The D&O portion, specifically the liability of Directors and any employment practices that we may have, essentially stands as a self-insured obligation. The only limitations on our ability to defend the individual director would be those I just articulated under the Tort Claims Act. I think we would be able to -- this Agency would be able to make a judgement call in any particular case whether such a defense should be provided. I cannot say what the Agency would do but I would have to assume it would have to be an extreme set of factual circumstances under which the Agency would not provide that defense.

MS, PARKER: Tom, one other point of clarification: Is it discretionary on our part about choosing the Attorney General or providing outside counsel?

MR. HUGHES: Well, the statute requires us to use the Attorney General for litigation. On a practical matter, however, there's a number of potential variations on that. We can request the Attorney General to consent to using outside counsel in litigationmatters. In addition, if there were a perceived conflict between the Agency itself and the individual Director, at least in my conversations with the Attorney General's office on other matters, again I suspect that the Attorney General would consent to us hiring outside counsel for the Director.'

MS. PARKER: I just wanted to make Board Members comfortable. I think there is discretion on that part. So it is not only that we have this coverage. I don't think we are necessarily bound by that the best counsel you are going to get is the Attorney General's office. I think we have flexibility. Fortunately, we have flexibility.

CHAIRMAN WALLACE: Bob.

MR. KLEIN: This is different information than I think we had the last time. This is the only situation where the Agency would not indemnify and defend? There are no other exclusions?

MR. HUGHES: The Tort Claims Act says that the Agency has a duty to defend except when there is actual fraud, malice or corruption.

CHAIRMAN WALLACE: Or corruption?

MR. HUGHES: Corruption.

MR. KLEIN: Okay.

CHAIRMAN WALLACE: I recommend we don't commit fraud, malice or corruption or resign.

MR. HUGHES: What I'm saying is I think there is a difference between an allegation and the Agency's determination that that has in fact happened that might preclude us from providing a defense.

CHAIRMAN WALLACE: Sure.

MR. HUGHES: That's why I think as a practical matter the situation would have to be fairly extreme for the Agency to conclude that yes, in fact, the Director actually guilty of that.

MR. KLEIN: So *my* understanding is that, as plaintiff's attorney, as you referenced, if they are going to file a cause of action they are going to throw in 30 different actions and one of those is going to almost always be fraud.

CHAIRMAN WALLACE: Maybe.

MR. KLEIN: Highly probable. Particularly if they know the patterns involved.

CHAIRMAN WALLACE: If they understand what we're going through right now the answer is, sure.

MR. KLEIN: Okay. And *my* understanding, though, is that the fact that they throw that in there does not stop the Agency, and in fact they would have to have some preponderant showing that there was some legitimacy to their claim, before the Agency would not defend the Director. Is that correct?

CHAIRMAN WALLACE: I think that's most likely.

MR. HUGHES: I think the Agency would be making that determination.

OCHOA: Didn't you say that there an actual determination of fraud, malice, corruption?

HUGHES: What it says is that there is a duty to defend as long as the Director is not guilty of actual fraud, corruption or malice.

CHAIRMAN WALLACE: And the question Bob is raising is, who makes that determination in advance of the court?

MR. HUGHES: And I believe that the Agency can make that determination reasonably because of the fact that the plaintiff's attorney is likely to toss in the entire range of possible claims.

MR. KLEIN: Exactly.

MR. HUGHES: And I don't think that a fraud claim tacked on as cause of action number 12 is going to disqualify the Agency from indemnifying that Director.

MR. HOBBS: But D&O liability insurance does not --

CHAIRMAN WALLACE: Does not cover fraud, malice or corruption.

MR. HOBBS: It is not going to cover that anyway. They are going to conduct their own investigation and they are going to make their own determination.

CHAIRMAN WALLACE: So where is my $125,000 now?

MR. KLEIN: Yes. My issue had dealt with, and if you will go back to the prior records you will find, the issue of making sure that there was a way to get defended.

MR. HOBBS: That's right.

MR. KLEIN: When there was an outstanding claim which may have no legitimacy *whatsoever.*/ So this is a different set of facts and different presentation than I heard previously addressing that issue. And with that understanding then I don't have the same position.

MS. **PARKER:** I think we *tried* to talk this through several different times and I think where we came at this from the staff's perspective. Me, persknally, I would say this, having sat on a number of boards and concerned about, not that I have what some of my colleagues may have but I do value *my* house and I do not want to; give it up for *my* job. But I think we were of a mind that if having this coverage, whether it was -- From a perception standpoint, if it provided comfortability to the Board Members and it was within a reasonable amount of money we thought that, from a perception standpoint, it was worth doing it.

I think we have always been concerned about the reality of it. What protections that there are for Board Members and for employees in these particular situations. I can think of many cases, and can bring you many examples, of people who have been state employees and been sued and had all kinds of awful things said about them, I personally had to go through this. But it has always been a situation that because there was no fraud, corruption or malice it was taken care of. It's a nuisance but the reality of it is that, fortunately, there is this protection. I think it would be very difficult to find people who would work if there were not. But again, having said that, I think if we could have done something that would have given Board Members comfort it would have been worthwhile to have done it.

MR. HUGHES: I would only throw in that I had specifically asked the brokers in dealing with the carriers to try to, essentially, make the pitch that they were not underwriting this thing correctly. They elected not to listen to my view on this but it seems to me that in light of the degree of immunities and the civil service aspect of the employment, and the fact that they indicated they were underwriting us, essentially, as a private nonprofit, that perhaps if they had taken that into considerationmore we could get more reasonable coverage. That is simply not what they elected to do. But I have asked them to keep their antennae out to find a possible way to obtain this within the cost levels that we have been instructed to consider.

CHAIRMAN WALLACE: But, Tom, in no case are they going to cover fraud, malice or corruption. Are they going to defend a Boardmember who engages in fraud, malice and corruption?

MR. HUGHES: Well, there may be coverage for fraud, potentially. In any event, our entire thinking was that to the extenf that there is some coverage available here it is not so substantial as to merit the cost that we are being asked to pay for.

CHAIRMAN WALLACE: Richard.

MR. KLEIN: This **is** a different set of facts we have been given today than we had before.

CHAIRMAN WALLACE: I agree. To me it was an evolving thing that -- I did not know the rationale but I agree. ***As*** we had gotten into it I was willing to listen to it all along, but as I heard it this morning from Tom before the meeting, this is not a good cost benefit for this Agency. And if I don't like the limited little bit of risk then I should go do something else. So I agree with you, Bob. Richard.

MR. FRIEDMAN: I was just going to add that in *my* 20 years as a state employee I have seen a number of suits where individuals will' name -- The allegations always include things. The AG has always provided the defense. If they felt conflicted out the defense was provided in another manner.

But if it is any additional level of comfort, we recently had a suit ,fordamages that went to the Court of Appeals and it includednaming both our past and current Directors for civil rights violations. The first thing all three judges did on the appellate panel was to scold the petitioners' attorneys for making those personal allegations without some substantial proof of fraud, malice, corruption. That aspect, the personal liability aspect of the suit was dismissed right at the court hearing. So clearly, the justices took the immunity provisions for our Director very seriously. Many of them were previous state employees, I suppose, they are currently state employees.

But they took that immunityprovision, the personal immunity very seriously.

CHAIRMAN WALLACE: Well, can we put this to bed? Unless Tom comes up with something in the industry, insurance industry, that redirects it I suggest we put this to bed.

MR. HUGHES: We are not recommending any action except as I indicated, we will keep our antennae out for good deals when we can find them.

OTHER BOARD MATTERS

CHAIRMAN WALLACE: Okay. I am going to then move on to Item 8. Are there any other non-agendized matters to come before the Board? Board? Audience?

PUBLIC TESTIMONY

Hearing and seeing none, moving on to Item 9. Any members of the public who want to talk to us about something? Don't you dare. I know you guys. But please, feel free, I didn't mean that. That's fraudulent.

I recommend then that hearing nothing and seeing nothing on Item 9 that we adjourn with a brief moment of silence for the first President and/or Chairman of CHFA in the mid-seventies, Mike Elliott. There is a piece at the end of our agendas on that. So could we have a moment of silence and adjourn in Mike Elliott's honor as he just passed on-

(A moment of silence was observed.)

Thank you. With that we are adjourned.

(The meeting was adjourned at

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CERTIFICATION

DECLARATION OF TRANSCRIBER

I, Ramona Cota, a duly designated transcriber do hereby declare and certify, under penalty of perjury, that I have transcribed two tapes in number and this covers a total of pages 1 through 122, and which recording was duly recorded at Millbrae, California, in thematter of the Board of Directors public Meeting of the California Housing Finance Agency on the 8th day of November, 2001, and that the foregoing pages constitute a true, complete and accurate transcript of the aforementioned tapes, to the best of my ability.

Dated this 14th day of December, 2001, at Sacramento County, California.

Ramona Cota, Official Transcriber

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State of California

MEMORANDUM

To: Board of Directors

Date: December 2 1,2001

Kenneth R. Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL, SINGLE FAMILY REAUTHORIZATION RESOLUTION 02-01

Resolution 02-01 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 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, including the "drawdown bonds" indenture approved at the November 8 Board meeting. We again anticipate continuing to use the Home Mortgage Revenue Bond indenture, with its Aa2/AA- ratings, for our single family bond issuances in 2002. Bonds issued under this 19-year-old financing program now comprise approximately 73% of our $8 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, 2004.

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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 **02-01** would not expire until 30 days after the first Board meeting in the year 2003 at whch there is a quorum. Likewise, last year's single family resolution (01-04) will not expire until 30 days after this meeting.

During **2002** 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

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 whch is held the first meeting of the Board in the year 2003 at whch 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 whch is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on or before August 1, 2004 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 Fannie Mae ("Fannie Mae") in connection with their "*MRB* Express" program and approved by Resolution No. 93-30, adopted September 7, 1993 (the "Fannie Mae *MRB* Express Program Indenture"),

(g) that form of general indenture designed for the Fannie Mae Index Option Program and approved by Resolution No. 94-01, adopted January 13, 1994 (the "Fannie Mae Index Option Program Indenture"),

(h) those certain indentures pertaining to the SFMor Bonds (the "SFMor Indentures"), and/or

(i) the form of draw down bond indenture approved by Resolution No. 01-04, as amended by Resolution No. 01-39, adopted November 8, 2001.

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 5 1368 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. **Approval of Farms of Supplemental Indenture.**</u> For 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 5 1368 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 with or without California, be subject to such terms of redemption (including from such sinlung 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 fiu-therance 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 fiu-ther authorized to hold information 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, Fannie Mae) 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 fiu-ther 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 fiu-ther authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of a purchase contract in a special trust account for the benefit of the Agency, and the amount of said deposit shall be 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 kxecuted on behalf of the Agency by the Executive Director, whch 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 purposes of (i) financing the purchase of Loans on an interim basis, prior to the financing of such Loans with Bonds, whether issued or to be issued and (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products. 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. 02-02 (the multifamily bond resolution adopted at the same meeting) may not at any time exceed

Section 1 **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 fiu-therance 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 Agencv 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 Lad Agency Bonds for the purpose of providing funds for the Program for the purchase of Loans financing Residences w i t h thejurisdiction 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 whch 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 whch is held the first meeting of the Board in the year 2003 at whch 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 Lad 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 fiu-ther 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, Fannie Mae) 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 fiu-ther 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 fiu-ther 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.

<u>Section 13. **Ratification of Prior Actions**</u>. 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.

<u>Section **14. Authorization of Related Actions and Agreements**</u>. 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 whch 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, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds to, an auction rate mode, 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 Chef 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'SCERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 02-01 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the loth day of January, 2002, of whch 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 10th day of January, 2002.

[SEAL]

Thomas C. Hughes
Secretary of the Board of
Directors of the California
Housing Finance Agency

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SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 02-01 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the loth day of January, 2002, of whch meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in *my* office; that said copy is a full, true, and correct copy of the original Resolution adopted at said meeting and entered in said minutes; and that said Resolution has not been amended, modified or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ___ day of

____

[SEAL]

____
Thomas C. Hughes
Secretary of the Board of
Directors of the California
Housing Finance Agency

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State of California

MEMORANDUM

To: Board of Directors

Date: December 2 1,2001

nn h R **Carlson**, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL MULTIFAMILY BOND REAUTHORIZATION RESOLUTION 02-02

Resolution 02-02 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, including the "drawdown bonds" indenture approved on November 8. We again anticipate continuing to utilize the Multifamily Housing Revenue Bonds III indenture, whch relies on the Agency's general obligation ratings of for its credit. The $691 million of bonds now outstanding under this 5-year-old indenture comprises approximately 8.6% of our $8 billion of debt. Ow general obligation is pledged to a total of $973 million (12%) of our bonds, and $923 million of these are multifamily bonds. Ow 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 **1,2004.**

In order to allow for necessary overlap of authority for bond issues scheduled during the time that reauthorization is being considered, Resolution 02-02 would not expire until 30 days after the first Board meeting in the year 2003 at whch there is a quorum. Likewise, last year's multifamily resolution (01-05) will not expire until 30 days after this meeting.

During 2002 we anticipate issuing multifamily bonds four times -- in January, May, September and November -- each in connection with the CDLAC allocation meeting schedule. The proposed January issuance of drawdown bonds will be based on a small allocation granted this week as part of CDLAC's third allocation round for 2001. We expect each of the later three transactions to include additional bonds to be authorized by this resolution, such as 501(c)(3) bonds, refunding bonds, and taxable bonds.

Attachment

RESOLUTIONNO. 02-02

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 thebonds;

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 whch is held the first meeting in the year 2003 of the Board of Directors of the Agency at whch 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 whch is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on a later date on or before August 1, 2004, 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, for and on behalf and in the name of the Agency in connection with the issuance of Bonds, to execute and acknowledge and to deliver to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee (the "Trustee"), one or more new indentures (the "New Indentures"), in one or more forms similar to one or more of the following (collectively, the "Prior Indentures"):

(1) the 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 1984-1) 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 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;

(17) the Multifamily Loan Purchase Bond Indenture, dated as of July 1, 2000; or

(18) the form of draw down bond indenture approved by Resolution No. 01-05, as amended by Resolution No. 01-39, adopted November 8, 2001.

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 hrtherance of the objectives of the

843 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 fiu-therance 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 whch 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 whch are issued the Single Family Mortgage Bonds,

(4) for a deposit of such other available assets of the Agency in an appropriate amount in fiu-therance 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 fiu-therance 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,

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 with or without California, be subject to such terms of redemption (including from such sinlung 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 fiu-therance 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 fiu-ther 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 fiu-ther 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 fiu-ther 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 returned 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 Deliverv 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, whch 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 purposes of (i) financing the purchase of Loans on an interim basis, prior to the financing of such Loans with Bonds, whether issued or to be issued and (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of

Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products. 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. 02-01 (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 hrtherance 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, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds to, an auction rate mode, 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 Chef 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, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 02-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 10th day of January, 2002, 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 10th day of January, 2002.

[SEAL]

Thomas C. Hughes
Secretary of the Board of
Directors of the California
Housing Finance Agency

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SECRETARY'SCERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution No. 02-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the loth day of January, 2002, of whch meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

AB STENTIONS:

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 CaliforniaHousing Finance Agency hereto this ____ day of ______________________

[SEAL]

____
Thomas C. Hughes
Secretary of the Board of
Directors of the California
Housing Finance Agency

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State of California

MEMORANDUM

To: Board of Directors

Date: December 21,2001

Kenneth R. Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: AUTHORIZATION TO MAKE APPLICATION TO THE CALIFORNIA DEBT LIMIT ALLOCATION RESOLUTION **02-03**

The California Debt Limit Allocation Committee is the State entity which, under California law, allocates the federal volume cap for "private activity bonds" to be issued each year by State and local bond issuers. Private activity bonds are federally tax-exempt bonds which are issued to benefit non-governmental borrowers such as first-time homebuyers or owners of affordable rental housing developments.

Resolution **02-03** would authorize application to CDLAC for a maximum of 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 **02-01** and **02-02,** which authorize the issuance of single family and multifamily bonds, are themselves in effect.

The table below shows the dramatic recent increases from **2000** to **2002** in the amount of private activity bond volume cap available for California bond issuers. The increased per capita amounts were authorized by a change in federal law enacted last year.

	2000	2001	2002
Per Capita$ Amount	**$50**	**$62.50**	**$75**
State Ceiling *(billions of $1)*	**$1.657**	**$2.117**	**$2.56** (est.)

CDLAC is scheduled to meet on January **23** 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 met **on** December 20 and granted CHFA a single family carry forward allocation of **$73,153,970,** representingthe amount of **2001** volume cap that was left over after other awards were made. As we suggestedto the CDLAC staff, half of this amount will be deducted from CHFA's ***50%*** share of the portion of the 2002 State ceiling that will be reserved for single family The deducted amount will then be added to the share for local housing agencies in order to maintain the 50/50 State/local split of single family allocation.

CDLAC has scheduled three rounds of allocations during 2002. Applications for multifamily rental housing will be considered at all three proposed allocation meetings, currently scheduled to occur in the months of March, June, and September. Applications for single family programs will be considered only at the June meeting.

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 1997 2001

		MULTIFAMILY			SINGLE FAMILY		
Year	Volume Cap	Total	To CHFA	% of Total	Total	To CHFA	% of Total
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	
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	$159,315,000	17.5%	$434,256,050	$217,128,000	50.0%
2001	$2,122,538,462	$1,103,000,033	$123,550,000	11.2%	$670,085,543•	$369,153,970	

• Includes and the Extra Credit Teacher Home Purchase Program.

CDLAC97-01.xls

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RESOLUTION NO. 02-03

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-rite 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. 02-01 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 finance the Multifamily Program;

WHEREAS, the Agency has by its Resolution No. 02-02 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 Sinde Familv 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. 02-01 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 in connection with a mortgage credit certificate program or in connection with a teacher home purchase program.

Section 2. **Authorization to Apply to CDLAC for the Multifamilv 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. 02-02 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, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 02-03 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the loth day of January, 2002, of whch 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 loth day of January, 2002.

[SEAL]

Thomas C. Hughes
Secretary of the Board of
Directors of the California
Housing Finance Agency

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