CalHFA BOARD OF DIRECTORS

Thursday, July 8, 2004

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

9:30 a.m.

1. Roll Call.

2. Approval of the minutes of the May 12, 2004 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action relative to final loan commitment for the following projects: (Linn Warren)

NUMBER	DEVELOPMENT	LOCALITY	UNITS
04-006-C/S	The Crossings	San Diego/ San Diego	108

NUMBER	DEVELOPMENT	LOCALITY	UNITS
04-002-C/N	Dublin Transit Center	Dublin/ Alameda	112

5. Discussion, recommendation and possible action relative to final loan commitment modification for the following project: (Linn Warren)

NUMBER	DEVELOPMENT	LOCALITY	UNITS
02-008-N	White Rock Village	El Dorado Hills/ El Dorado	96

6. Educational presentation regarding the mortgage insurance industry, and CalHFA's mortgage insurance business.

7. Discussion of other Board matters and reports.

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

NOTES

HOTEL PARKING: Parking is available as follows: (1) Limited valet parking is available at the hotel; and (2) city parking lot is next door at rates of $2.00 per hour for the first two hours, $1.25 per every ½ hour, thereafter, with a maximum of $14.00.

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be September 8, 2004, at the Hilton Burbank Airport & Convention Center, Burbank, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

ORIGINAL

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Hilton Burbank Airport & Convention Center
Academy Four Conference Room
2500 Hollywood Way
Burbank, California

Wednesday, May 12, 2004
9:37 a.m. to 12:18 p.m.

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Minutes approved by the Board of Directors at its meeting held:

07-08-2004

Attest: ______________________

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

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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Minutes approved by the Board of Directors at its meeting held:

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

APPEARANCES

Directors Present:

JOHN A. COURSON, Chairperson

CURT AUGUSTINE
for Sunne Wright McPeak
Secretary
Business, Transportation and Housing Agency

EDWARD BAYUK

PETER N. CAREY

EDWARD M. CZUKER

MATTHEW O. FRANKLIN

DORA LEONG GALLO

JOHN G. MORRIS

JEANNE PETERSON
for Philip Angelides
State Treasurer

JACK SHINE

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CalHFA Staff Present:

THERESA A. PARKER
Executive Director

THOMAS C. HUGHES
General Counsel

JOJO OJIMA

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BE IT REMEMBERED that on Wednesday, May 12, 2004, commencing at the hour of 9:37 a.m., at the Hilton Burbank Airport and Convention Center, Academy Four Conference Room, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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CHAIRPERSON COURSON: Good morning, everyone. Welcome to our Board meeting. This morning I will have a little better handle and be able to follow the due course of order, and we will call the roll.

MS. OJIMA: Thank you, Mr. Chairman.

Item 1: Roll Call

MS. OJIMA: Ms. Peterson for Mr. Angelides.

MS. PETERSON: Here.

MS. OJIMA: Mr. Bayuk.

MR. BAYUK: Here.

MS. OJIMA: Mr. Carey.

MR. CAREY: Here.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Here.

MS. OJIMA: Mr. Franklin. Mr. Franklin, are you here?

MR. FRANKLIN: Present. Soon to be nourished.

MS. OJIMA: Ms. Gallo.

MS. LEONG GALLO: Here.
MS. OJIMA: Mr. Augustine for Ms. McPeak.
MR. AUGUSTINE: Here.
MS. OJIMA: Mr. Morris.
MR. MORRIS: Here.
MS. OJIMA: Mr. Shine.
MR. SHINE: Here.
MS. OJIMA: Mr. Courson.
CHAIRPERSON COURSON: Here.
MS. OJIMA: Ms. Arduin?
(No audible response.)
MS. OJIMA: Ms. Boel?
(No audible response.)
MS. OJIMA: Ms. Parker.
MS. PARKER: Here.
MS. OJIMA: We have a quorum.
CHAIRPERSON COURSON: Thank you.

Item 2: Approval of the minutes of the March 11, 2004 Board of Directors meeting

CHAIRPERSON COURSON: The first order of business is the approval of minutes of our last meeting on March 11th. Are there any additions or corrections?
(No audible response.)
CHAIRPERSON COURSON: Is there a motion to approve?

MR. CZUKER: So moved.

CHAIRPERSON COURSON: And a second?

MR. MORRIS: Second.

CHAIRPERSON COURSON: All those in favor?

MULTIPLE SPEAKERS: Aye.

CHAIRPERSON COURSON: Oh, roll call.

MS. OJIMA: Who is the second?

MR. MORRIS: I did.

CHAIRPERSON COURSON: Mr. Morris.

MS. OJIMA: Thank you, Mr. Morris.
Ms. Peterson.

MS. PETERSON: Aye.

MS. OJIMA: Mr. Bayuk.

MR. BAYUK: Abstain.

MS. OJIMA: Mr. Carey.

MR. CAREY: Aye.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Aye.

MS. OJIMA: Mr. Franklin.

MR. FRANKLIN: Aye.

MS. OJIMA: Ms. Gallo.

MS. LEONG GALLO: Aye.

MS. OJIMA: Mr. Augustine.

MR. AUGUSTINE: Abstain.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Aye.

MS. OJIMA: The minutes have been approved.

Item 3: Chairman/Executive Director Comments

CHAIRPERSON COURSON: I'll start by making a couple of comments. First of all, I have to tell you that from the time of our last Board meeting and over the last 60 days, I have continued -- having fully been aware of CalHFA's mission as I've tried to sort of educate myself, and I'm sure all of you new Board members have found the same thing, I've continued to be very impressed with the professionalism and the depth of the staff in asking questions and the responsiveness and the clear and concise answers that I've received, knowing a little bit about the business, and the willingness to share that information. I want to publicly thank all the staff that's here for helping me in trying to get the training wheels off. It's truly an impressive group.

And, Terri, you're to be congratulated for putting the team together. They have been a joy to work with over the last 60 days.

Let me -- one of the things that has come to mind and I have become more convinced of as we -- as I've gone through the last 60 days is I've really tried to find an opportunity for the Board to have an opportunity, a retreat or training session, to really step back and look at some of the operations and activities of the -- of the Agency, particularly as it affects some of the very sophisticated financing that we're using in terms our bond issues, our interest rate swaps, our hedges, and how all of that affects our mission of providing low and moderate income affordable housing in the state and the impact that the financial markets have on the operation of the agency.

Every year the staff, members of the staff, go to New York and meet with Standard & Poor's and that will happen in July of this year. And so I'm proposing that we try to find a mutually acceptable date to the Board to have a retreat after they come back to really try to sit down in a setting where we don't have the crush of decisions and projects and official business to do that, but an opportunity to sit down and work with the staff, get our questions answered, and have a retreat and training session to really understand some of the financial operations of the Agency and the impact of the markets and in particular the interest rate environment we seem to be moving into over the next 12 months of our fiscal year and how that impacts our financial operations.

So I think that we're targeting is sometime after the middle of July and perhaps before the middle of or end of August. And I think what we would probably do is maybe propose several days or try to pick some dates and survey the Board and see what your availability is. I know it's a tough time with vacations. Certainly I think particularly for those of us who are new, it would be very helpful and those who are -- have been around for a while, maybe we can enlighten in terms of the changing economic environment that we're going to see in terms of interest rates.

So we will notify and survey the Board after we can pick some dates and see what availability is and have that accomplished before our next Board meeting. Because our July meeting, we had talked about doing it in July, but there are several potential projects. And so to give this the due -- the attention we find it's due, we want to do it outside of the Board setting.

Having said that, I have a good opportunity -- semi-sad for CalHFA, but happy for the individual and also a good opportunity to reconnect. Matt Franklin and I worked together in our previous lives, our previous lives in this business. I chaired the NBA, and Matt was at the Department of Housing and Urban Development. We had the opportunity to work together. And as we migrate our lives and our tasks back to California, we meet again, albeit briefly, at CalHFA. Because many of you know that Matt is moving to the City of San Francisco and is going to, if I'm correct, be the director of the housing initiatives for the City of San Francisco. So we're real pleased.

We're sorry to lose you here, but excited about the opportunities for the City. And as Terri is gently tapping this paper so I don't forget, Matt, I'd just like to give you a plaque.

(Applause.)

MR. FRANKLIN: That's wonderful, John. Thank you very much. I'll be brief here but just say a few words.

First, I really want to thank Terri Parker. I couldn't have had a better partner in my 12 months as Director of Housing and Community Development. It's actually coincidently 12 months to the day from when I started. And Terri was the very first person I met with when I came up to Sacramento and has just been a, you know, partner in every sense of the word in my tenure there. So I really want to thank Terri for that.

I'd also thank the Board and the staff of CalHFA. I'm very proud of the work we've done in the last 12 months and proud to have been associated with CalHFA both as a Board Member and as a partner. HCD and CalHFA work very, very closely together. And in the last 12 months we've gotten a lot done.

The thing I'm most proud of is that, you know, we've invested over $450 billion of the Prop 46 money in just 12 months, which is a record for the State of California for investments. And that will produce over 17,000 units. We had an all-staff meeting with Sunne McPeak one day as part of my employment change to introduce Sunne to the team. And we were talking about 17,000 homeowners. And I suggested that we imagine them there on the floor of Arco Arena and instead of the Kings warming up, we have to look around the arena at all of the folks whose lives we've touched and people we've helped. And that was a pretty awesome image, for me anyway. So it's just been an absolute pleasure. Thank you, John.

CHAIRPERSON COURSON: Good luck to you, Matt.

MR. FRANKLIN: Thank you.

CHAIRPERSON COURSON: We have another member of the Board who's here today who represents the Treasurer's Office. And Jeanne Peterson, who is the Executive Director of the Tax Allocation Committee at the Treasurer's Office, will also be attending her last Board meeting today. Jeanne has announced that she is going -- I guess in this case we do call it going to the dark side, which is private industry. And so this will be Jeanne's last meeting.

I've gotten to know Jeanne actually fairly recently. We've spent a lot of time together in Washington a couple of months ago and enjoyed working with her. And albeit her announcement is a little more recent, we're going to see if we can't get her back in July perhaps for some recognition.

But, Jeanne, we're going to miss you and your input.

MS. PETERSON: Thank you very much. I'd just like to say that it's hard for me to believe that this may be my last Board meeting. It's been a great run for me on the Tax Credit Committee for five years, over five years, and representing the Treasurer for over four years. And I'd just like to thank the Board members and all of the staff. Representing the Treasurer in this capacity has been probably one of the highlights of my time. Staff has been so professional and so dedicated to the mission and so helpful, and, as witnessed at Ken Carlson's retirement party, so much fun.

And you have a wonderful leader in Terri, who I'm proud to call my colleague and my close friend. So you won't be seeing the last of me, because I'm going to stay in Sacramento and stay in affordable housing. Thank you.

CHAIRPERSON COURSON: Thanks, Jeanne.

And let me welcome also officially, Curt Augustine. Curt is the Deputy of Legislation for the Business, Transportation and Housing Secretary --

MR. AUGUSTINE: Thank you. Glad to be here.

CHAIRPERSON COURSON: -- and is with us today.

With that, I'll turn to Terri.

MS. PARKER: Thank you, Mr. Chairman.

I have -- we'll use that as a segue to make a couple of announcements from the standpoint of the staff of the Agency. As with any dynamic organization, we have change afoot. We look forward to change in a positive fashion, but we want to remind that we remember those people who brought us where we are. I want to step back and thank them and recognize their wonderful contributions.

As we talked last time, that Ken Carlson had retired from the Housing Finance Agency, that leaves a big void. The Agency has been going through the process to recruit a new Director of Finance. And because of the importance of the position and that it's a gubernatorial appointment, which takes a little bit of time, we have asked Bruce Gilbertson if he would step up and serve on an acting basis to be both the Director of Finance on an acting basis and in his current capacity as Controller. So I just want to let you all know that Bruce is currently operating in that capacity, and I certainly want to thank him for his willingness to wear two hats at the moment.

I will tell you that we've gone through the recruitment process. I have submitted a proposal to the Governor's Office for candidates. In addition to a Director of Finance, I've also asked the Governor's Office to allow the Agency to create a risk management position, to create an in-house risk management team given obviously the substantial amount of variable rate debt that we have, the complexity, the importance of having someone in-house who can help manage that. I think we're at the point in time, with the complexity of all of our financing, of having that in-house resource will be a financial -- a significant resource for us from our financial capabilities.

So we're working with the Governor's Office on the creation and the filling of these positions. And I hope by the next Board meeting to be able to report to you more on that, the process of that.

The second position I'd like to recognize, Dom Maio, this is his last Board meeting. Dom has been with the Agency many years, and we will ask Dom to come back at the July meeting when we have some little mementos for him. I did want to let the Board know that this is Dom's last official meeting. He is retiring and joining his wife in retirement, and he has an active life planned. But he has also said to us that he's willing to come back and help on some particular projects. So while he may not be in his capacity as IT manager, we will continue to be able to pick his brain and use his talent and resources. So we're also in the process of recruiting a replacement for Dom, and we will give you more information on that.

We're looking forward to the presentation to you today of our Five-Year Business Plan. We think that this is one of our most important meetings of the year because this meeting is where we get perspective from you all on where the Agency is headed from a policy and philosophical standpoint so -- and that leading into the Board retreat that the Chair was speaking of, we think we're going to be able to incorporate going forward on what your policies, visions, for the Agency are about and making sure that you have the resources and education to meet your fiduciary responsibilities.

One last note, I just want to give you an update at what's happening at the federal level. We talked a number of times, and there's some reference in the Board five-year business plan, about the ten-year rule at the federal level being enacted, if that is enacted, the additional resources of the Agency from the standpoint of being able to recycle bonds. The Senate yesterday passed the Jobs Tax Bill. SB 1637 did include the ten-year rule in it. That focuses the shift to the House. Their version is HR 284, which has about 345 House members that are co-sponsors for the ten-year rule, so we will keep you apprised of that. We're very anxious to get that taken care of this session if we can, frankly because it's so difficult to explain, so we can move to work with Congress about higher housing policy agenda issues.

So with that, Mr. Chairman, I will conclude my remarks.

CHAIRPERSON COURSON: Okay. Thank you.

Then let's move, if we may, then to the discussion of our one project.

Item 4: Discussion, recommendation and possible action relative to final loan commitment for the following projects:

Resolution 04-12 (Plaza de las Flores, Sunnyvale/ Santa Clara)

MR. WARREN: Thank you, Mr. Chairman, Members of the Board.

Our one project today is the Plaza de las Flores. This is a preservation project located in Sunnyvale. It is a 101-unit senior development. The request for the Board today is for a first loan in the moment $9,025,000, 5.5 percent interest rate, 30-year fully amortizing and 501(c)(3) bonds.

As you can see from your materials, this has a very extensive degree of layered financing. Without going into all the gory details of the financing, they really break down into three areas. The first is the city funds that are being supplied by the City of Sunnyvale. The second has to do with reserves that are being transferred to the properties from HUD. This is formerly a HUD-insured 222(d)(4) project. Kathy will describe that more in a moment. And the project itself will be generating cash that will also contribute to the sources.

This project went through the Proposition 46 acquisition program last year. At that point in time, the Agency made a loan of approximately $9.4 million coupled with a loan via the Prop 46 bond funds for a little over $4 million. Those dollars are being retired and are being replaced by the first loan I described, as well as the extensive moment subordinate financing which is headed by an MHP loan from HCD.

There is one issue on the locality. If you notice that the third bullet point on the first page, which is 153 of your materials, there's a structure there which allows the City of Sunnyvale to put their subordinate debt in on an amortizing fashion, requiring payment for a period of 26 years. This is a structure that we worked out with the City of Sunnyvale on a prior project a couple of years ago, and it really does indicate a trend for localities to not just simply accept residual receipts loans, but to seek repayment of their funds.

There is a technical matter to be worked out between the disposition of these terms between Sunnyvale and HCD. We did feel it's appropriate and all parties agreed that we would seek approval from the Board subject to the resolution of this matter from the HCD and Sunnyvale. But I talked with Kathy earlier about this, and I think it's going to be resolved. We do want to bring to the Board's attention that there is a somewhat small unresolved issue. It is unresolved.

So with that, Kathy, would you take us through the project.

MS. WEREMIUK: Okay. This project is in downtown Sunnyvale. It's on a site that's 2.32 acres. It is bordered by --

CHAIRPERSON COURSON: Kathy, could you pull the microphone toward you?

MS. WEREMIUK: Of course.

It's in downtown Sunnyvale. It's 2.32 acres. And the site, the large building, you can see this large structure. Just across from it is a shopping center that is currently not fully occupied. This is Washington Street. The site fronts on Carroll. There's a little street called McKinley, and this is Sunnyvale Boulevard.

This is a closer view of the site here. It is one building. This is -- this portion is 11,000 square feet commercial subdivided into six parcels. The parking for the commercial is here. It's on a city lot which is back here. The commercial is fully occupied and has been fully leased and occupied since the inception of the building. There's been no vacancy and no turnover -- well, one turnover in the last ten years.

The apartments are in this section. There are three stories of apartments. There's a gorgeous interior courtyard. And the community facilities buildings are located here. Right here is a parking structure that's below grade. There are 34 parking spaces, which has proved sufficient for the building over its 20-some-year history.

This is the front entry of the building. It's well maintained. This is a view of the interior courtyard, again, well maintained and a real tenant amenity.

This is one of the community rooms. When you look at the budget, you'll notice that there's a large expenditure, roughly $80,000, for redecorating. I think this room is an example of why redecoration is needed on the project. And this is a view of the typical elevations from the interior courtyard.

These are the rents. The project as restricted will be 47 units at 25 percent of AMI as long as the Section 8 contract is in place. Section 8, there are 90 units at $1,044 and ten units at $1,094. The difference in the contract is the size of the units. The handicap units were built out as significantly larger, and they would have a higher rent standard from HUD. And the market right now is $975. When we brought it to the Board last year, it was at $1,025, so the market's fallen a little bit in the last year, not as precipitously as it has fallen in the two years previous.

In the event -- we have a Section 8 contract that's on the property. It's a 20-year contract with underwriting to that. In the event that it went away, we're working through -- HCD has in it regs, they go up to 50 percent rents. Market right now is in-between 50 and

60 percent rent levels, so we would assume that the units that are not deeply restricted by HCD would flow into market in the event that there's a loss of the Section 8 contract. But we have HUD risk share in this project, which will mitigate if that loss were to occur.

The rehab on the property, the property is essentially in very good shape. Seismically it's in good shape. There is -- the only environmental issue is some asbestos that's right now not friable. The rehab's plan is the immediate maintenance to the roof, it's waterproofing some of the decks, repairing the working solar system, rehabing 17 units in the building, some electrical upgrades in the units, accessibility repairs both in the commercial and in the -- in the entries to the commercial and in the buildings, some plumbing repairs, and that's basically the replacement of the water heaters and replacement of the HVAC throughout the building, and furnishing -- refurnishing the community spaces.

We have -- the Borrower has been in discussions with the contractor. The contractor is pretty close to a construction contract. It hasn't been fully -- it hasn't been signed obviously because they don't have a commitment from us. The contractor's XL Construction.

We built a healthy contingency into the numbers.

You'll see that we have a contingency that's somewhere around 30 percent. That -- currently much of that is going to be pulled back into the construction budget, and whatever is left over will be used for additional rehab of the units. We think we'll be able to do somewhere between 15 and 20 additional units. And in the first four years of the project, we'll be collecting reserves of about $400,000, and that will be for rolling rehab of the units. The units are liveable and in good condition.

MR. WARREN: The Sponsor and Developer for the project is Christian Church Homes. About 20 years ago, this organization, which is a nonprofit, entered into a number of agreements with Forest City Development in which Forest City was the developer and Christian Church was the managing partner or manager of the properties. Under many of these projects, they are now acquiring them pursuant to the agreement. These are basically very good folks, and we're pleased to help them facilitate the acquisition of these deals.

It is their preference to use 501(c)(3) type financing, which would give them 100 percent ownership of the projects, but the downside of that particular financing vehicle, as we can see, is we have basically all kinds of subordinate financing to make it happen, so they're complex. They're a little bit messy, but it's a good model for the time. It does give the nonprofit full ownership.

So with that, we'd be -- I'd like to recommend approval and be happy to answer any questions.

CHAIRPERSON COURSON: Mr. Czuker.

MR. CZUKER: Yes, thank you.

To follow up on your comments, with all of the participation from the different agencies to help make the 503(c)(3) bond work, what is the regulatory agreement term that the affordable housing will be maintained? Since you have different regulatory bodies that each have different priorities, perhaps you can tell us what is the longest maturity and what length of affordability is provided here.

MS. WEREMIUK: The longest maturity is 55 years. Most of the regulatory agreements will be for 30. But the HCD's is the longest, and it is also the deepest. It requires the deepest of $4 million.

MR. CZUKER: Will all of the other agencies delegate to CalHFA for monitoring, or will there be multiple jurisdictions that are auditing and monitoring this project, or will there be a lead agency that's monitoring this project?

MS. WEREMIUK: We do many of these, and generally we don't have a delegation, but we do assume monitoring.

In this instance, there have been some discussions with HCD about an agreement where we would handle and do some of the monitoring. That, the details of that, haven't been worked out, but they are generally worked out.

MR. WARREN: I think it's fair to say, generally speaking, each individual locality will have their own regulatory agreement on the property and conduct their own monitoring. There may be, as Kathy said, an MOU between us and HCD, but right now that's probably about it. And that is an endemic problem with these types of deals.

MS. WEREMIUK: The City of Sunnyvale has some -- contributes money from trust and so their -- our expectation is that we will join together in monitoring those two organizations, but it's up to them.

MR. CZUKER: Thank you.

CHAIRPERSON COURSON: Are there other questions?

Mr. Franklin.

MR. FRANKLIN: Yeah. First, just a statement. I support taking this contract for no risk. The contract is for about another 20 years of a 30-year term. I think that's an appropriate role for CalHFA to play. And HCD certainly will partner with CalHFA in this deal, as Linn described, and will help manage that risk when and if the time comes.

I did want to add one clarification -- two clarifications. A critical part of this is the statement around HCD's willingness to relax the deep affordability of the 25 percent AMI in the event that the contract should not renew, which we are committed to relaxing those. But just so you're all aware, though, our standard is one where we would raise rents to the level necessary to preserve the fiscal integrity of the project. That's part of our regulatory authority. That may or may not be 50 percent AMI, so I just want to clarify that that might be a lower number, number one. But certainly we are committed to preserving the fiscal integrity of the property.

Secondly, the outstanding issue, just to echo Linn's comments, as far as our discussions with the City of Sunnyvale, as far as residual receipts, it is still outstanding. We're very firm and I think the Board needs to know very firm is our position, which is if we're putting $3.5 million at 3 percent interest money into this deal, we expect to participate in the residual receipts. So that will need to be resolved, as Linn indicated. So that's consistent with staff's report. I just want to point that out.

Finally, on the management, I think it's a very good question. Certainly HCD and CalHFA have had an operational if not formalized arrangement, if you will. We have had many and an increasing number of deals where we both have money in the deal, and we will often coordinate or share reports with one another. A formal agreement, you know, may be the appropriate next step for us to think about as organizations. Because with the MHP program, we are seeing many, many more of those come through. So at least at the state level, I think we've come a long way in that area, but there may be further to go.

MR. WARREN: I think that's right, Mr. Franklin. I think it is an issue within the industry. The Agency set their arrangement with the Treasurer's Office for a number years, but it is a fundamental issue. And it translates into dollars and cents, because nonprofits and for-profits alike have to develop the accounting and management expertise to basically generate compliance.

CHAIRPERSON COURSON: Ms. Peterson.

MS. PETERSON: I'd just like to point out that there is actually a formal memorandum of understanding amongst HCD, CalHFA, and TCAC with respect to this. This is one of the few jobs that TCAC was not involved in since it's 501(c)(3) bonds, but that deals with sharing information with respect to compliance and monitoring and trying with -- we can't do this with the entire portfolios that we all share, but we do joint inspections with the Agency. It's been one of the areas that we've been working on since it's a little bit easier than some of the other areas, actually, than monitoring the field; however, it's still true that each participant monitors for itself things, and those things are oftentimes very different. But to the extent that we can coordinate, we have done that in the past and continue to look for ways to enhance that better. Because, as you can well imagine, the property manager of the property and you have five different oversight bodies wanting to come on five different days, it's pretty senseless. So we do have formalized arrangements for that.

MS. LEONG GALLO: Speaking from a nonprofit's perspective, we really appreciate the fact that at least on the state level we're making efforts to coordinate that. For special needs housing, which is what we do, we call on a number of funding sources, usually about five permanent sources, for the project. If we have 20 projects, you can imagine it's very complicated for us. I'm sure from an efficiency standpoint from staff resources as well as accounting procedures and such, it's very helpful at least for the state to get their act together and then the local governments or whichever housing agencies, they're going to want to monitor too.

So, you know, at some point it's going to trickle down, but the fact that the state agencies are working together is much appreciated.

CHAIRPERSON COURSON: Ms. Parker.

MS. PARKER: I'd just like to make a comment on this. I think that it's important that the Housing Finance Agency and our sister state agencies recognize there have been many task forces over the years that have looked at the notion of consolidation of these entities at the state level for the stakeholder groups so they aren't having to go to multiple entities to get their work done. And the decision has usually been or the recommendation has been consistent to not have us consolidate, but had we not looked at this issue of trying to figure out ways to present a face to our customers to help alleviate their problems, I think that there would be a larger cry out there for some sort of relief from the bureaucracy at the state level.

So part of this is, number one, we all think it's an important thing to accomplish, but, two, it's also because there has been this discussion over the years of, you know, one-stop shopping. But there are other benefits of why that hasn't been achieved, but that doesn't mean that we haven't worked at trying to consolidate this for our customer base.

CHAIRPERSON COURSON: Mr. Czuker.

MR. CZUKER: In a slightly different direction, perhaps you can discuss with us the risk associated with the commercial aspect of this project and how the commercial income may be also propping up the economic viability of the project and what long-term risk is that to the project?

MS. WEREMIUK: The -- there is commercial in the project. The commercial is currently fully leased. It's an attractive location, and it's leased at about 50 cents per square foot below market, prevailing market rates, so it hits and finds or probably is below the definition of volume commercial market. It's got consistent long-term tenants that have been there going back over ten years of lease history. Even going back 20, we find five or six tenants still there, one of them doubling their space over that time, and only one tenant in a nonlease situation. He's the most recent. They're not leased because the borrower doesn't want to lease them out. They can probably lease the space for more money.

We did not see a great deal of risk to the property. Our general standard, we do about 50 percent. Because of the stable history and the attractiveness of the commercial location in downtown Sunnyvale, we underwrote it for a 30 percent vacancy factor. We anticipate that vacancy will actually generate cash to the subordinate lenders and pay off for the subordinate lenders. But we usually value that on a property-by-property basis. Given the history, the consistent management -- Christian Church Homes have managed the commericial for 20 years. They know the market -- we thought that 30 percent was prudent.

MS. PETERSON: Move approval of the project.

CHAIRPERSON COURSON: Mr. Morris.

MR. MORRIS: I just have a follow-up on the commercial. There's approximately 12,000 square feet of retail, and when you showed the site plan, it looked like -- maybe I misunderstood this -- you said that the parking was not on the project. Is there REA with adjacent property owners?

MS. WEREMIUK: There is not. The adjacent property owner is the City, and they have access to the city lots, a nonmetered lot.

MR. MORRIS: Is there any sort of agreement with the City?

MS. WEREMIUK: I don't believe -- I don't believe I know the answer to that question.

MR. MORRIS: Is there any parking arrangement at all with the City?

MS. WEREMIUK: The Borrower is here. I'm not sure if --

MR. PICKEL: I'm not aware of a formalized agreement. William Pickel, Christian Church Homes, P-i-c-k-e-l.

MR. MORRIS: So what if the City decided at some point they wanted that parcel for restricted parking? There's nothing you could really do with regards to the commercial; right?

MR. WARREN: Yeah, I think at this juncture that would probably be an issue, but I think there is street parking.

MR. MORRIS: So is it too late to go -- I mean, obviously this project has been built and the retail has been there for years. Is it too late to go back and discuss with the City and negotiate an REA so we know we've got parking?

MR. WARREN: We can make a request to the City, but it may be too late now for a formal agreement. We can find out. We can certainly ask them that.

MR. MORRIS: I think it also affects your building leaseout space. If I were a tenant, I'd be reluctant to lease a space without any guaranteed parking.

MR. WARREN: Well, I think the normal underwriting standard is we try to keep the contribution of commericial at 10 percent or less. It's a little bit more than 10 percent in this case. And again, we've factored in a 30 percent risk factor, so, you know, it is an issue, I think with respect to the parking. But on the other hand, given its relative small contribution to the project, it's not a huge risk issue. We'd be happy to go back and talk to the City.

MR. MORRIS: No, it's not a big risk, but typically retail you want four or five parking spaces per thousand feet, so you want 40 or 50 spaces, and you don't have any.

MR. WARREN: It's a highly residential area, so I think there's a fair amount of activity from foot traffic that will mitigate the lack of parking with the City, so it's kind of a balance. Happy to look into it.

CHAIRPERSON COURSON: Ms. Peterson, do you want to make a motion to approve the resolution?

MS. PETERSON: Yes.

CHAIRPERSON COURSON: Is there a second?

MR. CZUKER: Second.

CHAIRPERSON COURSON: Is there any further comments or questions?

(No audible response.)

CHAIRPERSON COURSON: Any comments or questions from the public? Yes, sir.

MR. PICKEL: I just wanted to express my organization's thanks and my personal thanks to Kathy Weremiuk for not only putting in a tremendous amount of time structuring this deal, but really taking a leadership role that I think actually helps our agency, Christian Church Homes. This is the second CalHFA-assisted acquisition that we've done working with the same seller. And these are great buildings that we've had a relationship with as a management agent for 20 years. We know all the residents in them. And CalHFA is structuring a deal with the kind rehab that's going to improve the building. So we're just really grateful for all the help and the HCD as well. The HCD is a major part of the preservation deal, and we're very grateful.

CHAIRPERSON COURSON: Thank you.

Roll call, please.

MS. OJIMA: Thank you, Mr. Chairman.

Ms. Peterson.

MS. PETERSON: Aye.

MS. OJIMA: Mr. Bayuk.

MR. BAYUK: Aye.

MS. OJIMA: Mr. Carey.

MR. CAREY: Aye.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Aye.

MS. OJIMA: Mr. Franklin.

MR. FRANKLIN: Aye.

MS. OJIMA: Ms. Gallo.

MS. LEONG GALLO: Aye.

MS. OJIMA: Mr. Augustine.

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Aye.

MS. OJIMA: Resolution 04-12 has been approved.

CHAIRPERSON COURSON: Thank you.

As we've talked about in our comments, this is a meeting which is of particular importance, an opportunity to really take a look at sort of a look back at this fiscal year and to look forward to the plans for the coming year and the five-year planning period, along with the financing and budget that goes with that. So that's what we're going to spend the bulk of our morning this morning. And for that, I will turn it over to Ms. Parker.

Item 5: Discussion, recommendation and possible action relative to adoption of resolution approving Five-Year Business Plan for fiscal years

2004/2005 to 2008/2009

Resolution 04-13

MS. PARKER: Mr. Chairman, thank you.

Just an introduction, I've really submitted my comments to you in the letter dated May 3rd which accompanied the business plan, to essentially say we're obviously very pleased to present this 12th annual five-year business plan to the Board for their consideration.

We obviously want to try to use this as an opportunity to have both Board education and for affirmation from the Board about the direction and the resources of the staff in the -- to meet the affordable demands in the State of California in totality. We've tried to talk a little bit about the successes of our prior year's work, to submit a business plan which gives some assurances to our partners in the community, many of which look to the Agency to have products that are available for them with some certainty in order to make financial decisions on a go-forward basis. And that certainly is important, because some of these projects and projects that people are involved in, particularly in the affordable housing multifamily rental business, take years to put together.

So we have submitted what is the culmination of the staff's best wisdom and efforts of putting a plan together. We have had our focus group meetings in the community to get their input, and we can speak directly to any questions that people have of what members of our customer data group have said or requested as part of this business plan development.

But we look forward to presenting this to the Board, and obviously we are predicating our energies on a certain number of uncertainties that we have laid out in the business plan. But to the extent that there are new opportunities that come up, we would want the Board to know that this is a dynamic document. While it is a plan for us and does commit the Agency's resources over a five-year period in totality, if something does occur out there in the marketplace that is particularly unique or challenging that the Agency can anticipate, it would certainly be the staff's position to come back to the Board and make the Board aware of it and see how we can fit it into our overall goals and objectives.

With that, Mr. Chairman, we will do a presentation of the areas in the business plan, and staff are available for any questions that you may have.

Homeownership is first, and with that, we'll ask Mr. Bell to go through the proposal, the business plan for the homeownership area.

MR. BELL: Good morning. As Ms. Parker indicated, you should all have our detailed vision summaries with your Board notebook. And what I'd like to do now is take you through a brief recap of our first mortgage production, and then I'm going to bring you up to date with regard to that production, and then we'll go through our objectives and strategies looking forward, including the Five-Year Business Plan. And following that, I will entertain any questions you might have, and we have two of our CHAP homeownership division here as well to answer any questions that I might not be able to.

With regard to homeownership purchases, you can see that we've had an increase each and every year. The volume of first mortgage production since July 1, 1999, has increased slightly the first year, and I'll go through the facts with you. The first year, 1999 through 2000, we had one billion, one million, thirty-seven thousand, four hundred, twenty-five. And then as of the latest figures I have, which is May 8, 2004, we have purchased one billion, one hundred and thirty-six million, one hundred and fifty, seven hundred and sixty-seven, which will meet our goal this year. And we're hoping to meet and possibly surpass our goal.

If you don't have any questions on this slide, I'll turn to the next side.

MR. CAREY: Wayne?

MR. BELL: Yes.

MR. CAREY: What's the parallel number of loans as the dollars are going up?

MR. BELL: The number of loans, because of the size of the loans, actually went down. The first fiscal year, 1999/2000, the average loan amount was $119,240. And this fiscal year, the average loan amount is $184,300. In the fiscal year 1999/2000 year, the loan number was $8,395, and the latest known numbers I have for this fiscal year are $5,943. And that obviously is the result of the increased size of the loans.

Now, if you also factor in the subordinate loans, the number of loans are fairly significant. In fact, this year we've got about 16,000 loans that we processed through the Homeownership Division with firsts as well as subordinate loans.

MR. CAREY: Thank you.

MR. BELL: Any other questions?

(No audible response.)

MR. BELL: Turning to look at the homeownership special programs, you'll see that we have an expanded and deeper usage of subordinate loans. And what really illustrates this is a view of the 2003/2004 chart. We had some starts and -- starts and stops earlier with regard to school facilities and CHDAP loans, but that was before the Proposition 46 passed. In 2002, you all remember there was a housing bond that passed, and that was a steady and reliable stream of money that we could put into down payment assistance and other special programs.

I'll give you a brief recap as of March 31, 2004, where we are for subordinate loans and special programs. CHAP, which is our main program supporting our first loans, because, as I think most of you know, that's the symbiotic, the supporting structure, for our first loans. If a borrower is eligible for a first mortgage, they're also eligible for a CHAP loan, and that's, as I said, our principal down payment subordinate loan. And about 80 percent of our first mortgages also have a CHAP loan with it as well. But we purchased 4,871 loans for a total of $29,027,686.

Then the CHDAP loans, which are the loans that look like a CHAP loan but they're funded by Prop 46 and they also can be used for closing costs as well as down payment assistance, we purchased 3,088 loans for $18,967,648.

And then we have HICAP loans totalling 873 loans, and those are the loans that are in the amount of $25,000, which helps us penetrate high-cost areas in the state. There are eight counties that we added to the HICAP program, and these are extremely high-cost areas where we have underserved the people who are seeking homeownership.

There's an Extra Credit Teacher Program, which I think you're familiar with, which was sponsored by the Treasurer, which we support. We've done 223 loans there for $1,706,351. And then we have in school facility fee grants $3,706,634 as of March 31.

Any questions on this slide?

CHAIRPERSON COURSON: Is there -- it struck me in looking at this, there's -- obviously a number of the programs are all zero under the down payment assistance, so is there notable overlap among those programs, or are they all separate and distinct?

MR. BELL: I believe they're all separate and distinct. In fact, if you look at the number of our approved loans in the packages we purchased, we have these programs layered one behind another. The ones that are the closest, if you just look at them on paper, are CHAP and CHDAP, because they're both for down payment assistance. They both provide a certain percentage of the appraised value of the purchase price.

As I said, the CHDAP also provides for closing cost assistance. What a number of our borrowers do is they will get a 97 percent first, they'll get a 3 percent CHAP, so they have a 100 percent loan. And then they'll use the CHDAP for closing cost assistance, so there's no money out of pocket to them.

Any other questions?

(No audible response.)

MR. BELL: Turning to the next slide, we put this together so you can get some sense of how much money has been expended from the Prop 46 funds that have come to our Homeownership Division and also shows you what remains. This is in millions of dollars, as you'll note. You'll see the start dates. And the proposition, as I said earlier, was passed in November of 2002. And we began commencing -- we commenced disbursing the funds as soon as we possibly could.

Pipeline, just so you know, is active and pending loans and transactions that have not been closed. And the balance is what remains in noncommitted funds. And you'll see that we have sufficient and significant amounts of money still remaining in the -- in the accounts for future use.

Are there any questions about the Prop 46 money, expenditure, pipeline, what's remaining?

CHAIRPERSON COURSON: Mr. Franklin.

MR. FRANKLIN: Wayne, and this may be coming in the plan, so feel free to defer it till you get to it if appropriate, but given that, I think in general we're looking at about -- well, for us anyway, there's a four-to-five-year plan on Prop 46 funds from passage to trying to get the money out of the door. We at HCD certainly have been -- and I think CalHFA as well -- under a lot of pressure to use the funds quickly to -- not only for the units, but to stimulate the economy and try to create jobs. CHDAP looks to be moving at about our pace. The other three seem to be fairly significantly undersubscribed. I'm curious what the challenges are there, what your thoughts are on that.

MR. BELL: CHDAP is a very popular program, and, as you said, it's moving along very, very well.

With regard to the Extra Credit Teacher Program, the Treasurer has asked us to set a goal of 500 per year. And our efforts there have been focused lately on marketing, getting the word out. And we had the amendment that went through recently which allowed for the use of the Extra Credit Teacher Program by classified employees, so it broadened the program. And then we also are doing everything we can to get the word out, as I said, but it's slow and growing. We've had a pretty good year this year, and we're trying to move it out as quickly as possible.

MR. FRANKLIN: Do you have the ability for an outreach to the users and lenders, not so much the consumers, but the lenders? My guess would be, you know, as the mortgage industry is continuing to consolidate into larger and larger operation shops, even more and more of a commodity, almost a widget business, that any of the newer unique programs, there's a lot of education to push. That's really needed in order to get those out.

MR. BELL: We have a pretty significant outreach program underway right now. Our marketing people have targeted the California Teachers Association and --

MS. PARKER: I don't want to interrupt you, but if you want to have Mr. Giebel come up and I think Ken could add to Wayne's comments on what our marketing efforts have been in this particular program.

MR. BELL: With that, I'll ask Ken Geibel to come up.

MR. FRANKLIN: Yeah. And then my final question, just while he's coming up, would be are there -- I know some of our programs have been difficult to use, some of which we anticipated were going to be difficult to use. The best example is our -- I think we have about 25 million for housing for migrant workers, which is not economically feasible for most developers. There's a provision, I believe, after 24 or 30 months it reverts to a program where we are more confident of demand, like our Farm Workers Program. Are there similar provisions in here?

MR. BELL: Yes. Our HIRAP program is one that will revert in May 2005. Unless there's something done to continue that, it will go into that program. So we do have some of these.

And before Ken goes into his presentation, HIRAP is a program where we really tried to get the word out. That provides money for revitalization areas where nonprofit counseling agencies have identified particular areas. It requires counseling before someone buys a home. It provides significant help to people who are in lower income urban areas. But we have seven loans in our pipeline right now. None have closed. But it's been a very slow go, despite our best marketing efforts.

So with that, I'll turn it over to Ken Giebel to talk more about our Extra Credit Teacher Program.

MR. GIEBEL: Good morning. We started in late November, early December marketing and getting out the Extra Credit Teachers Program. Our first effort was -- as you know, it's the high-priority schools which were former locally funded schools. The nomenclature changed, so that means that's one through five. We sent mailers, a package to each school with brochures, posters, and a letter to the administrators and principals of each one of the 3,000 schools.

The next thing we've done is we notified the lenders of the program. Then again in January, in the high-cost areas -- not the high-cap, but the high-cost areas, I think there's 18 counties, if I'm correct -- we again sent a mailer out to each one of the schools, because we changed the down payment assistance in those counties from $7,500 to $15,000, which is a significant change to the program.

So each high-priority school has been contacted twice. We can tell you from the potential borrower/teacher standpoint, the phone is ringing considerably. They are aware of it. In fact, Washington Mutual sent out our January press release on the program to every school in the state, and my phone number and my e-mail were on it. I'm averaging about six a day, and I turn them over to the staff who get back to them.

Also, we've had -- Washington Mutual, for example, have asked for Extra Credit Teacher Program brochures. It's not -- it's a long process. By the time they find out about the program and then we get -- we get them to a lender, then they have to decide if they qualify, if they're going to have a job next year, in some of the school districts, and then they move on through the process. It's probably six to eight months, if they're in a position to purchase the product. The universe gets real small when you start thinking about all of that.

MS. PARKER: Ken, would you speak to the PSAs too?

MR. GIEBEL: Yes. We -- in fact, I think you saw last time we've done PSAs specifically for this program. The radio is being placed as of this month. Next month we'll start posting the TV. And again in August, September, we'll focus on the television again.

MR. FRANKLIN: Great. Thank you for that. And I -- that sounds wonderful.

The -- my two cents would be, you know, I think it's a fork in the road as to how much you can focus on direct-to-consumer marketing versus real hands-on training -- when I was at Wells Fargo, we called them home mortgage consultants, who are very entrepreneurial folks. So as you move more toward the purchase market, at least they're starting to, you should be in a better position. But, you know, if you could get 20 or 50 good high-producing home mortgage consultants who really bought into this program, they'll go sell it for you.

So it sounds like you're doing that, but I think that may be -- because it's not a lot of money. So I think the hard part is they have got so many different programs, really getting them bought in is, you know, something to think about.

MS. PARKER: I apologize for interrupting. There's one issue that staff's going to talk a little bit about with our relationship with our lenders from a financial standpoint, that we're hoping is also going to be an increased incentive for them to be working on our products and for this one in specificity. So I just want make sure you have that connection when we talk about that, because we really are trying to develop a better relationship with our lenders and figure the best way to do it is to see if we can offer a little better financial incentive.

MR. AUGUSTINE: That's good thinking.

MS. PETERSON: I just wanted to thank actually the staff of CalHFA. As almost everyone knows, the Extra Credit Teacher Program was actually the brainchild of the Treasurer, and after having a not terribly successful beginning, the Treasurer's Office basically turned this program to CalHFA and with a lot of conversations, talked about some of the things that have been mentioned already, such as doubling the amount of the assistance in certain areas and broadening the scope of eligibility to beyond just teachers to certified school employees that are in those particular school districts.

So the Treasurer feels very strongly that the goal of 500 loans a year is one that can be met. And because of the -- because of the broadening and the increase in the dollar amount that's available in certain areas and because of the marketing effort, as Mr. Giebel's explained that it takes a period of time, we're still very hopeful that that annual goal of 500 loans can be achieved and certainly wouldn't want the Agency to back off from that amount of loans.

We both thank you for your help in putting together and running this program for the Treasurer's Office, and also we look forward to continuing working with it and very much look forward to meeting that goal of 500 annual loans.

MR. GIEBEL: Thank you. We are in the process -- and it should be finished in two weeks -- we are mailing on a staggered basis starting out with the lower, what we call the most-need areas, counties and zip codes within the state, to the complete 354,000 real estate brokers on the DRE list, and that will start probably in about 30 days. We just need someone to sign the postage for that.

But we are -- and included in that is each one of our programs, and it mentions the Extra Credit Teacher Program. So we're going after the borrowers, lenders, and real estate agents, because in emerging markets, the person who directs the purchase cycle is the real estate broker.

MR. AUGUSTINE: That's my thought exactly. Thank you.

MR. BELL: We also have an industry meeting yearly. We keep in touch with the members of the industry. And the industry obviously is home builders, home sellers, and other government agencies that provide home assistance.

Moving on to the next slide, these are self-explanatory. These are the objectives and the strategies. And I don't think I need to read them to you, but one of the things that I want to add to this letter is a list of some of our accomplishments and things that we are very proud of.

One is that we have a sustained high level of minority borrowers. And as of our last review, 70 percent of our loans were to minority borrowers. And we also have a high level amongst people of low income. The California Tax Credit Allocation Committee asked that 50 percent of our loans go to people who are low income, and we surpassed that by 23 percent as of my last report.

The other thing that Ms. Parker asked me to comment on was one of the things that we did try to increase was our first loan production. And that is we looked carefully at some of the things that our lenders asked us to do. One of those that we heard repeatedly was to increase the origination fee.

Now, there was a debate we had. An increase in origination fee would impact the borrowers slightly. And then we looked at what the borrowers were asking, what the lenders were asking, and they said we need this increase in origination fee to help us with the mortgage brokers and the like. So we increased our origination fee to 1.5 percent. Previously, it was limited to 1 percent. And we think that it has significantly helped us with our loan production.

We had a meeting with our lenders, and they all thanked us for the increase. We also reported to the California Building Industry Association, and they also thanked us. And obviously what that does is it gives us a slightly larger pot of money to be shared with mortgage brokers to have them brought in to the realm of our loans.

The other thing that I wanted to comment on is a homeownership working group that Ms. Parker, as our Executive Director asked us to put together back in December of 2003. We have an intra-agency working group right now made up of our Legal department, Mortgage

Insurance, Homeownership, IT, and Finance. And what we're looking at are ways to make our programs better, more efficient, more streamlined. And the major focus is on improving our processes to see if there are ways that we can be better and get our loans approved faster and things like that. And we're also looking at technological advancements, using the Internet for our loan application.

And we're also looking at products as well. We are -- have a subcommittee with that working group that looks at products. We put together a loan development product process, and we're working very, very hard and trying to enhance what we have now, make it better, and more functional.

And in addition to having the intra-agency group where we speak to each other, we reality-tested it with our lenders in the industry as well as nonprofits. I met with the Self Help Builders Group, and Peter Carey was there last week. We thank him for his comments and assistance.

One of the products that we're looking at is a 100 percent loan product or some variant. As you know, FHA is looking at a 100 percent product, and this is more popular with some borrowers. So we're looking at a number of variations that our borrowers would like. In connection with that, we've going to have a number of focus groups with Ken Giebel's group. And then with regard to processes, General Electric is helping us with some focus groups on processes.

CHAIRPERSON COURSON: Wayne, as the lending industry turns its head away from the elixir of refinancing and into the practicality of financing purchases of new home construction, what's your feel on how the impact of achieving our goal with a restriction of fixed rate as opposed to other? Because we know there's just a myriad of products being developed to serve the low and moderate income affordable housing in terms of different types of rate structures and so on. What's the impact of that in our achieving our share of that market by our own restriction to fixed rate?

MR. BELL: Well, as you likely know, there have been a number of surveys done which indicate that most people prefer a fixed-rate mortgage, even with a long-term fixed-rate mortgage. We've recently promoted the notion of adjustable-rate mortgages. We have done surveys among other HFAs. We've looked at the issue ourselves, and we're now as part of this product review looking at ARMs, step-rate mortgages, lengthening the term of the mortgages to 40 years, 35 years. And so we are examining a whole host of these different loan products.

We're hopeful though with the increased origination fee, improvement to our processes, and the fact that interest rates are rising that we will be able to meet our first mortgage production as well as our subordinate purchase production. But it's -- it's -- there's no guarantee, obviously.

And as you know with regard to ARMs, if there's an increase of 2 percent, a lot of people are going to be upside-down very quickly. When we surveyed the other HFAs, they all raised the same issue and that's the issue of mortgage shock, payment shock. And it's in all of our minds. We just don't want to have a product where borrowers go in thinking that they're somehow protected, then they find themselves in a position where they have to walk away from the mortgage.

MR. CAREY: First, from my own experience, I have a lot of concern where the goal is to get first-time homebuyer low income families in, their -- often their income flexibility isn't quite the same as middle and upper income folks. And some of those programs are designed on a real sense of upward mobility. Even where the income goes up, it doesn't necessarily provide additional income for debt service. It goes to health care and other immediate needs, so then maybe the target to look to would be to stay fixed, if we can.

MR. BELL: Any other questions? Comments?

MR. CAREY: Actually, I have a question, if I could. The Agency's got some dramatic goals in terms of targeting for low income and minority borrowers. But what's been the trend over the past few years?

MR. BELL: The trend that I've seen has actually increased in minority borrowing. But then if you look at the year to year, it goes up and down. It's pretty consistent around 70 percent for minority borrowing, low income. The figures I've seen range from 60 percent, 61, up to 72, 73. Our goals obviously are to provide assistance to both low and moderate income.

The last slide that we have for you is our five-year plan. And you should have all received that with your Board packets as well. Our goal for the next fiscal year is $1.25 billion. And the last five-year business plan that you were involved with was 1.225, so we've increased it $25 million above the five-year plan that was last approved.

And then you'll see all the subordinate loan production as well. And you'll remember that this fiscal year, '03/04, there was a goal of $1.175 billion for firsts and $76 million for seconds. The seconds in this plan almost equal a hundred million dollars,

$98.8 million. And you'll see there's a projected increase each year after the next fiscal year as well.

And if anyone is relying on the handout, the years were one year behind, so it's correct on the overview. Stated a little differently, in the handout, the first year said 2003/2004, but the slide is correct.

CHAIRPERSON COURSON: Ms. Peterson.

MS. PETERSON: Having said what I said about the Extra Credit Teacher Program, I'd be very interested if you could explain why it is that that amount tapers off in '07/08 and is entirely absent for '08/09.

MR. BELL: I'm going to have to turn to our -- I think the notion is if we meet these goals every year, the money will be gone.

MR. FRANKLIN: The 46 money.

MR. BELL: Pardon?

MR. FRANKLIN: The Prop 46 money.

MR. BELL: The Prop 46 money.

MS. PARKER: Let me just say one thing. I think there's -- part of that is we need to be able to look at what the recycling of prepayments will do as far as producing some returns that could then be relent out. Obviously, that is under the Prop 46 chart. We didn't -- you know, certainly when we get to that point, we'll see whether or not we will then provide as we've done in the past down payment assistance through other funding mechanisms if we fell short of Prop 46 funds for this particular program.

MS. PETERSON: Thank you. Because, as you know, the program began actually before Prop 46 and there is great interest in making the first -- or the next three years successful in accomplishing the goals that were set forth with funds available, even if the Prop 46 funds earmarked for the Extra Credit Teacher Program are used up, from other sources within the Agency.

MR. BELL: Any other questions?

CHAIRPERSON COURSON: Other questions of Mr. Bell?

MR. FRANKLIN: Wayne, I would just commend you on the process and operational improvements that you've done. They can get lost, I think, in a presentation like this because they are operational in nature. But I think, again, based upon Wells Fargo experience, I think that's somewhere around your number one priority.

When I was with Wells, we had an active discussion on getting out of the business of working with CalHFA and a number of HFAs because, you know, every little step was different from our primary business, which at that time was with Freddie Mac. We just had a huge error rate. No matter how small that step looks in these, you know, mass operations centers, if you have a high error rate, in the case of CalHFA it can mean high penalties.

So continuing to make progress like you have been in the past, making it more and more paperless and go electronic, try to make the forms look as much like Fannies and Freddies that are driving the business, I think will just continue to boost your position.

MR. BELL: I appreciate that. And we really are dedicated to making our processes as simple as we believe they can be. We invited some very serious input from the lenders we had at the meeting last week. Wells Fargo was there and Washington Mutual and others. And we do understand that we are unique, and what we want to do is make certain that our processes are easy to work with and the verification is only as deep as it needs to be.

Thank you.

MS. PARKER: I want to introduce Nancy Abreu, our Director of Mortgage Insurance.

MS. ABREU: Thank you very much, Ms. Parker.

I want to begin by just quickly recapping the accomplishments and some of the tasks the mortgage insurance group has worked on during the last fiscal year, then to talk about volume and our strategy and objectives for the coming fiscal year.

Basically, as you are all aware, the last year, year and a half, we've been working on improving our process, upgrading our technology, finding new reinsurers, et cetera. And that work is basically behind us. We have formed a strategic alliance with GE Mortgage Insurance Company, who not only is our reinsurer, but is -- also does all the administrative function for us. So what that really says is once we've made the decision to insure a loan and issue a certificate of mortgage insurance, GE does all the backroom, the billing, the reporting, et cetera for us.

So that function, we're using the GE state-of-the-art technology. But what's more important for that, similar to a comment Mr. Franklin made, is it allows our lenders to use the exact same process that they use for all their other loans with all of the seven private mortgage insurers. They don't have to do anything different with us than they do if they have a loan insured with Wells Fargo, Fannie or Freddie being the investor.

Part of kind of the sync-up was to allow us to partner with the GSEs. And the GSEs, Fannie and Freddie, look at California as a high-cost steady and have defined low to moderate as 140 percent of area median or below. So as we wanted to expand our partnerships with the GSEs, we felt it was very important that we synced up our definition on the mortgage insurance side with that of the agencies, and we did get approval to do that.

We have also worked on our outreach activities, which have been pretty extensive. Prior, we really had a couple of captive products, a couple of captive lenders, and as the market has shifted, as we all know, your lenders and your GSEs are definitely focused on our market, on the first-time homebuyer, on emerging markets, et cetera. It was critical that we expand to the reach of the lenders. So we have spent a lot of time trying to cultivate new relationships and expand existing relationships with some of our lenders.

We did introduce a couple of new products, one which was a high-cost product, which is a partnership with Countrywide and Cal Rural insomuch as we're targeting 18 of the high-cost counties in California with loans above the conforming amount. So we'll be looking to loan from 333 to -- or 333-7 to $500,000 with emphasis on new construction in order to help kind of bridge that affordability gap in some of the higher cost counties.

We also developed a partnership with Union Bank. Prior, Union Bank had an emerging market product, but it was targeted at 95 percent, and they also had a 97 percent loan-to-value product. They asked if we would be willing to insure loans that were a 100 percent loan to value, and the product was totally targeted at 80 percent of the area median income or below. So we felt that was a very good role for us to play insomuch as the private mortgage insurers were not willing to do it. They did not have the same public purpose as we did in really needing to work at 80 percent or below market. So we're in a partnership with Union Bank on that.

The bottom two items are just more housekeeping. We updated our master policy that we provide to lenders so we're consistent with the GSEs.

Unfortunately on the volume side, it has been a little disappointing. You've seen some declines. Basically this year we will come in with about $250 million of new insurance written. This is down roughly 50 percent from the prior year. And our projections for '04/05, we've only increased it slightly to $260 million and basically flatlined it, if you will, through the remaining years.

The reason for that is severalfold, and we talked a little bit about it in the March meeting. One is really the decline in the industry at large on the use of mortgage insurance. You're seeing a lot more products out there that is an 80 percent first and a 20 percent second or an 80 percent first and two 10 percent seconds, trying to skirt requiring mortgage insurance. So the private mortgage insurers are being squeezed also.

The other thing we're seeing, that really is a phenomenon that started in 1998, was the increase in captive reinsurance companies. And what that is, it's basically they're limited liability partnerships that have been created between the lender and the private mortgage insurers where the lenders are actually sharing in the premiums that the borrowers are paying. So as the private mortgage insurers were trying to get more and more market share from the lenders, the lenders were pushing back saying, but what's in it for us? So they've created these limited liability corporations.

We knew they were out there. We knew they were impacting us significantly. I happened to see some numbers yesterday that said in 1998 the caps made $42 million net income. In 2003, even after the huge refi booms and the huge runoffs, they made $659 million. So it just shows the magnitude and significant growth in these captive reinsurance companies.

The last big competitive factor is the seven private MIs are all driving the same business. They see the growth being first-time homebuyers. They see the growth being emerging markets. And they're putting lots of time, energy, and dollars behind this. So that's just kind of a backdrop.

I'll talk about some of the programs we're working on in a few minutes, but let me give you a sense of why, at this point, we're just showing some modest growth and kind of flatlined it, because the terrain is still somewhat uncertain out there, and we're not sure the direction, and how it's to all going to play out.

CalSTRS, in particular, is down this year. It's down 50 percent from the prior year. That was a decision by CalSTRS. We were a captive mortgage insurer for the program. They were originating. They also have a captive lender, which was North American, that is now Washington Mutual. There were some operational issues, and they actually suspended the program. The program should be out again in July, but it's going to be structured entirely different. We will play a role on the insurance side, but much less significant than we've been in the prior years.

The good story is the continued collaborative with the homeownership. We've continued to see growth in our business with the Agency. This year, we should come in about $140 million, and projected next fiscal year we will come in about $180 million.

The community affordable, which is really the outreach partnerships we're trying to do with the GSEs and the lenders, will come in somewhere about $25 million this year. Hopefully, we'll take it up to 30 next year as we work through some of the partnerships. None of them are inked at this point, so we didn't want to be too aggressive putting them in the plan and for some reason they fall out. We're working, at this point, with both Citibank on a proposal and also Chase, J.P. Morgan Chase, so hopefully we'll get something there.

CalPERS, small increase. If you go back two, three years ago, we were probably doing a good 10, 20 percent of our business with CalPERS. This is a good indication of what the private mortgage insurers have done. As we were one of their primary mortgage insurers, we were getting volume. At the same time the private MIs went in, looked at their book of business, realized how stellar it was from the underwriting criteria and credit profile, et cetera, and have offered them special pricing that is 50 percent less than even our best pricing could be. So they're looking at it as a separate book of business.

The last program up here is lease purchase. That's a program that started about four years ago by Freddie Mac. It was offered in nine counties or localities throughout the state. Most of the bond transactions have expired. There's only one existing at this point in the Bay Area, and we're participating in that until it runs out in the next couple years.

Strategies for 2004/2005 are really concentrated in two areas. One is technology and one is production. On the technology side, as I said, we have GEMICO as our partner, once we provide certificate of insurance. We need now to develop the interface with our customer on the front so we can receive all the loan information, the loan data, the profiling electronically, so that the borrower can access affordable and we can provide the response to them also. So we're in the process of defining our user requirements, seeing if there's vendors out there, seeing if it should be a buy decision versus working with our IT group who stands ready to develop an agreement, if need be.

On the production side, we do have, you know, a niche, if you will. Unlike the private mortgage insurers, we can insure seconds. We have insured seconds in the past for Cal Rural, and we're working with one of the major lenders as inducement for them to maybe go down the credit curve, if you will, or to do some deferment on interest and providing some type of mortgage insurance for them.

Wayne has already talked about the homeownership working group, and one of our key focuses is on products, on some collaboration, so we're working on that. We're continuing our outreach with both the major lenders and also some of the regional players and just really working to expand relationships.

I think Mr. Augustine or Mr. Franklin mentioned the use of the California Association of Realtors. One of the partnerships we will be working on is a collaborative with Freddie Mac, Chase Home Loans, and the California Association of Realtors and NAHREP, National Association of Hispanic Real Estate Professionals, in doing an outreach for the Latino community. It's more of an education than directly loans to Freddie Mac. The Agency will be providing some down payment assistance and our programs also, but both the Realtors and NAHREP will be playing an active role in the education process.

With that, you have an overview of the direction of mortgage insurance for the next fiscal year. We welcome any questions or comments.

CHAIRPERSON COURSON: Anybody have any questions?

MS. ABREU: Thank you.

CHAIRPERSON COURSON: Thank you.

MS. PARKER: The last presentation will be by Linn Warren, our director of multifamily programs. Let me say at the outset of Linn's comments that Linn has a flight to catch, so if there are any questions that you have of Linn, now is your opportunity. And I would ask the Chair after Linn's concluded, if there are any public comments that anybody wants to make so that Linn can be sure to be here to respond.

MR. WARREN: Thank you. I appreciate it.

For multifamily for this year, I'd like to go through the accomplishments. The first bullet point reflects that we're expecting to achieve basically 100 percent of our core business goal. This last year we undertook basically two initiatives outside of our loan course. One was student housing and the other one was the Proposition 46 Acquisition Program.

I think as I mentioned in the March meeting, the UC student housing initiative basically did not go forward this fiscal year because of a change in policy that was put forth by the University of California. We have since had other discussions with them. It may come, it may not. We hold all that work in abeyance, and perhaps we can use it in the future.

The Prop 46 program, which I'll discuss a little bit in detail later on, has not met with as much interest and enthusiasm as we'd hoped. And you see in the coming fiscal year for that particular program, our core goal is basically bonds and credits and acquisition loans. Construction lending came very close, and we'll achieve our main goal.

The HELP program is in its sixth year. Right now we have $120 million in commitments that will be out, and the second round of the year is almost complete. This represents 90 localities, some of which you can see in multiple commitments, 18,500 units. Demand for the HELP program declined this year, mainly because localities were experiencing a number of problems regarding financing for affordable housing programs. Matter of fact, some of these commitments actually will probably be returned before the end of the fiscal year, end of the calendar year. The general sense, though, is that as localities stabilize their finances and recalibrate what they want to do from a housing standpoint, the demand for HELP will come back, particularly in the residential market.

Probably the significant achievement for my division were the close loans. We were projected by the end of the fiscal year to close 35 projects, and that could mean upwards of 50, 60 loans for $232 million, a little over 2,800 units. As we go through multifamily, what we can see on the printout obviously is the commitment process. Behind that is the loan close process. As with any commercial loan, they're notoriously complicated. I'm very proud of our staff and the amount of work that they've done in that area.

The construction loan program, which was basically rolled out a little over a year ago, has been very well received by the industry. We have 20 loans of various sizes throughout the plan we're working on. One of our main strategies for the coming year, which I'll talk about, is to reinforce and beef up even more project resources and staff resources for this program. The industry is very pleased with it. We're certainly able to pass on cost savings to the benefit of the projects, and we will continue to make that a core program.

Talking a little bit about process, the last bullet point is kind of interesting. It gives you an idea of what the daily volume is, if you will, at any given point in time in multifamily. Today, if you walked into our shop, you'd see that there are basically 160 loans in the process representing 90 projects themselves for a little over $730 million. That's a fair amount of work I think for any lending shop, and it reflects our desire to grow the capacity and basically enhance the growth of the program, which we need staff to do so. But it's a fairly active shop. You can see that the numbers reflect that.

We're going to be looking at five program areas this year. You want to again focus on our core competencies. If there are new initiatives that come along, we'll certainly try and avail ourselves of them, but given the level of volume we have, it's incumbent upon all us to really focus on our main mission.

The first is new construction. It's development. This is primarily linked to the MHP program utilized in locality financing to help finance these projects. The Agency is going to continue to offer fixed-rate plan financing for permanent loans, variable-rate financing for construction loans. This is in conjunction with the swap strategies in financing the offerings. Basically the MHP is a major component and has contributed to our success. With any given MHP program, the Agency finances between 25 and 40 percent of all MHP projects.

The second area of interest for us obviously is preservation. I think as I've told the Board before, this is a highly cyclical area with very low cap rates, as you've seen, and high sales prices in existing projects. Preservation deals have been tough to do. Many nonprofits that we do business with have elected not to participate actively in the purchase of these projects because they're very tough to do. We will partner with a number of for-profits, but again, these sales prices are tough and hard to make work.

Along those lines, we've had some recent discussions with HUD, in particularly in Los Angeles, to try to approach some alternative structures. And we think that the time has come for resident interest rates and hopefully we'll be getting some sales prices, that we can come up with some alternative structures and making some loans. So we kind of want to break the logjam on some of these preservation transactions. As you can see, we had more activity this year to that end, by devoting more internal resources to do that.

Section 8, our own portfolio loans, are obviously eligible in certain circumstances for refinancing. And as I mentioned, the Prop 46 program, we're getting resources. Quite candidly, we have modest expectations for the Prop 46 program, and we'll just have to see how well it is received by the industry.

Mixed income, again, this is something that we had originated a couple of years ago. It's a significant line of business. With the imposition of the prevailing wage, the impact on now mixed income projects, as I think some of you may know, the application for mixed income projects in the current CDLAC calendar year is down precipitously and I think is directly related to the imposition of the prevailing wage on those projects, which have been very hard to deal with. So those of you in developing, we're going to develop most likely conventional transactions.

We've made the choice to work on more the smaller infill redevelopment areas. The large projects with hundreds of units at this juncture, given our capacity, are best left to others to finance, although if we get the opportunity to do some of these things, we certainly would try to do those.

I mentioned the HOPE VI, again, is our working with HUD on the redevelopment of affordable housing. Depending upon the budget constraints in Washington on the HUD budget, this program may continue along for the next several years, but it's certainly not continuing with the funding levels that it's seen historically.

I mentioned student housing. This may come back. The underwriting work we did in student housing contains a significant body of experience and problems that we solved both from a financial and legal standpoint. The underwriting laws apply not only to student housing but also to military housing. And if that program ramps up, as the Department of Defense has indicated it wishes, then there may be an opportunity for us there as well. Again, the underwriting laws can transcend all these types of projects. So hopefully the work we did on student housing won't go to waste, but we will just have to wait and see.

The other two areas that we're focusing on are special needs and special lending. Special needs is a program that is similar to what was started back in 1997 with the introduction of 1 percent loans, 2 percent loans on a long-term basis to help finance projects. What we found over the years was there was a greater financial impact for the Agency with the use of short-term debt. What we're offering is very attractive construction financing on the short-term, bridge financing, and since these projects by definition can't support long-term permanent debt, very few can, the financial benefit that the Agency brings is really with the short-term interest rate.

So we're going to focus on that. We still will offer the very low interest rates. And in addition to that, if you'll notice there's comments about coordination. This is still a very fragmented industry. There are resources, both service calls and capitalization problems, which simply can't be brought together easily. And staff have assembled among their goals in addition to the real estate piece of what we do is to coordinate these various state and local entities to try to bring not only capital dollars to bear, but the service dollars to bear. And one of the areas that we're going to have to look at is to what extent do we wish to embark on capitalizing operating funds for service providers. So, again, we're revisiting this whole area. It really does suffer from a lack of coordination, and because of the Agency's central role as a financier, it seems logical for us to also extend a coordinating hand.

Special lending, again, it's the HELP program, which I mentioned earlier. This will continue for the coming year with increased activity. Tax increment, we're underway with our very first one. We'll see how that goes. But, again, like with HELP, as the localities stabilize their dealing, we think that an off-the-shelf program targeted to small- and medium-sized redevelopment agencies and to offer an attractive capitalization plan at low cost might be a good thing for us. And we'll see how well it's received. There's obviously risk involved anytime you're involved in tax increment financing. And part of our goal is to do some studies in the next couple of months to find out exactly what those parameters are.

What does all this translate into? The number of goals for the coming fiscal year: permanent loans, $160 million; construction loans, $100. My guess is based upon recent experience these numbers may be reversed. But, again, that's our goal, $260 million.

This puts us as a fairly significant player in the bond world. Right now between 25 and 30 percent of all bond allocations in credit enhancement is run through the agency. We're one of the top two or three players. As many of you know, it's a very competitive world that we're in. We go neck and neck with private lenders, so there is a limitation on how much market share we can actually capture. But we're very comfortable at this level. Our clients are being well served, and we think this is a very reachable goal.

As I said, preservation and Prop 46 funds, we have modest expectations for this program. We will see who picks up the pace. We simply don't know. But right now, others -- borrowers have alternative methods to acquire properties. And although this is a great idea, it may not be as competitive as we first hoped.

And finishing out the special lending, HELP, local initiative, and small business. We'll be working with localities in those areas.

New initiatives for the year, as I said, we're going to focus on our core competencies we also want to address. One preservation that I think we do need to address or move into is the refinancing of portfolios owned by nonprofits throughout the state. These are of all kinds. They're Section 8 assisted. They're expiring transactions, old 501(c)(3)s. There's really a smorgasbord of deals. But as these age and recapitalize, nonprofits realize this is their core asset, and they need to deal with that.

So what is going to happen over the next probably three or four months is a series of working groups with the nonprofits throughout the state. And really, the nonprofit is very competitive adjacent projects in this particular area. They've all agreed to cooperate. And when we sit down, we're going to try to come up with new loan models with variable-rate debt, ways to deal with their portfolios from a business-plan standpoint, how can the agency participate in the finance and capital of those.

The supportive housing and special needs, again, I mentioned this is a coordination aspect of what we want to do in this area. I think it's critical to do something more with this amount of money, and we've tried to push for the services.

I think also I also mentioned to the Board the homeownership development program. This is an idea that we started with several months ago, and the more we worked on it, the more excited we are about this. How this came to be is that many of the projects that we do on the multifamily side adjacent to them, localities are requiring for-sale affordable units. It seems logical to us to involve ourselves in the construction side of that, pass on the interest rate savings which can be generated with our construction loan program, link that with our homeownership group and our mortgage insurance group, and come up with a package of basically financing costs which would allow greater affordability on homeownership projects.

We appreciate the government subsidies on these are a little bit on the thin side, and the Agency has been asked and is considering developing an investing and financing vehicle at a higher interest rate, basically a step, a 10, 15, 20 percent risk piece on the development of these projects. It is something we're looking hard at. Obviously there's a fair amount of risk involved with that, and the financing models for the sale of the units relate back to the payment of this debt, but it fulfills the public need for or unmet need, so it's appropriate for us to look at that piece of lending.

The last two initiatives, again to reinforce the desire in the division to deal with the construction loan program. The development of this program is important, not just because we need to manage it from a lending standpoint, but to make this a sustainable component of what we do really opens up all kinds of opportunities for us, the homeownership development program only being one of them. So we are starting a new focus. Inside our shop today, this is what we spend most of our time on. The new hires in the coming year are directly related to this program, and we really are comfortable with that. We think it's going to be a very successful program, but we are being due diligent to make sure we achieve those goals.

The final role is a loan origination system. This was up in our budget last year. We got busy, quite frankly, and it wasn't something we could do. This year we intend to devote resources to do it. The industry has matured to the point with the established commercial origination platforms that we don't necessarily have to build it ourselves. The goal here is to get a system, customize it for our specific needs and to be flexible for as many new lending programs as we can envision with the cost utilization, purchasing loans, selling loans, and obviously the tracking that we do on a daily basis.

The MISMO and XML compliance are basically efforts by the Mortgage Bankers Association to standardize the language in the field within which people communicate. One of the requirements for us is that they also have to be compliant in those areas. So as the commercial mortgage mass security market is forced to standardization, we're going to benefit from that. And we tend to try to put our spin on the systems and platforms. This is something we need to do, and I think it will help us.

So with that one long sentence, I'll shut up and am happy to answer any questions.

CHAIRPERSON COURSON: Linn, let me, if I may, pull us back up to a little higher elevation. I was struck in looking in our books, in particular I will refer to page 188, which really is a -- the three presentations we've seen are a good picture of the five-year plan in terms of the various programs and targeted production levels. As Mr. Franklin said before, I was struck with the homeownership programs and the goals and that won't be easy, that was my take. The good news is the private market has stepped up and really is capturing more and is incented to capture more of what historically has been CalHFA's market, and our challenge is to find those unmeet needs that still exist out there.

We talked about the AMI. The multifamily, I was struck when I looked at the multifamily and particularly in what I'll call the outer years, the years beyond the next year, 18 months or so, and looking just at our core programs, I'll call the permanent and construction to see sort of flatlining --

MR. WARREN: Yeah.

CHAIRPERSON COURSON: -- versus what I would perceive an area where there's a greater unmet need because of the private market, maybe not to the extent of the single family, stepping up. Can you discuss that or respond to that?

MR. WARREN: Sure. I'd be glad to, yeah. I think the plan indicates that there's probably two or three years of growth, and then it basically goes flat.

First of all, there is a capacity issue. We are basically we think today at full capacity with what we're doing. So we have to be realistic as to how far can we grow. We're in a highly competitive market. I think that there is quite honestly a limitation as to how far we can grow. To date we are not involved in the financing of 5 percent tax credit agency, which is a huge component of affordable housing. We're not involved in mixed income, because that requires a different set of still sets which we have, but not in abundance, so that's a piece that we're not involved with, and private lenders do that extremely well.

So that leaves the bond world, largely, and as I said we have 25, 30 percent market share. That's also highly competitive. And I look at the numbers, and I asked seriously as we meet our core goal and meet our needs, is there an upper limit? And quite honestly, I think we're approaching an upper limit on how much we can actually capture from the market share. And what is the public good by going out and seeking more than your core, which is why when I talk about the special needs and infill, we need to maintain a profitable central core to basically fund our own profits and to do it comfortably. To exceed that level, I think, is instructing them to do too much.

And if you can reach a level of profitability in which the annuity from a great many of these commercial loans is solid, move those dollars into special needs and tax credits, then I think that's a nice balance. And we need to do more with our resources in the areas that the others do not do. The private lenders don't touch special needs.

I think, what you see, Mr. Chairman, is that attempt to balance the core with the increase in units. We'll see how far it goes.

CHAIRPERSON COURSON: Thank you. That's very good.

Mr. Czuker.

MR. CZUKER: Thank you. I have a multipart question that goes into different areas, so first, by way of observation, the industry is experiencing dramatically increasing costs for building materials of all kinds. Coupling the increase in building material costs with what exists as prevailing wage requirements on some or all of these projects, it's becoming increasing more difficult to compete and for CHFA to gain market share -- CalHFA to gain market share.

My question is in that period of time, would it make sense for CalHFA to look at, whether it be for nonprofits or for -- nonprofit and for-profit ventures, the acquisition of rehab repositioning of older existing housing stock. That product is not on your agenda, yet there is a growing need of housing that has been allowed to dilapidate over the last -- close of World War II period to the present, where local agencies as well as nonprofit and private owners could reposition existing housing stock with upgrades and take what could be expiring regulatory agreements or market rate housing but at levels and bring it to regulatory agreements and affordable housing stock restricted through the acquisition rehab possibility.

And I realize in the past that doesn't create as many jobs, and obviously one of our goals is to stimulate job creation. But I think with this double economic impact of recently increasing building materials coupled on top of the prevailing wage issue, one, I don't know if you see on the horizon from a political standpoint any relief in the prevailing wage issue, but in this window of rising costs, should we consider acquisition rehabs as a product type that would gain market share and gain affordable housing units in perhaps a much bigger way or bigger bang for the dollar? That's one part of the question.

The second, on a more specific note, is it possible to comment on what the average loan size for local municipalities either are or could be on the HELP program?

And secondly or thirdly, with the tax increment for RDAs, is there a dollar per agency risk? Because the budgets we have are rather modest and then as based on those modest numbers in the budget, if there's any appetite across multiple agencies, we obviously may not have budgeted enough for these categories.

MR. WARREN: As far as the first question, it is not highlighted in the business plan, you're right, Mr. Czuker, but there are two initiatives that I can comment on as far as rehabilitation. We have been in discussions for some time now with Century Housing. They came to us with a proposal to do just that, to identify unregulated market rate projects in parts of Los Angeles to either facilitate transfers or to refinance and rehabilitate. The idea would be that Century Housing Construction and some consortium lender for development of financing provide basically a Fannie Mae type of structure. They're small. There's basically 35 to 70 projects that have been around for a while. And I think we're going to be able to do that.

Our goal for those types of transactions is instead of being a direct lender, which means our coverage is weak, there's only so much we can cover, but the partnering with Century Housing is to work with localities and, say, can you identify a series of the small multifamily projects that we can work in partnership with you on a risk standpoint or a lending standpoint and do as you suggested, bring them as affordable stock and see what we can do with it that way.

So the Century Housing and I think others as well, that will be a really good model. Localities are tough because they've been kind of knocked back on their heels on that. So the straight answer is we can certainly make that a priority, if you want to do that. We think that's an appropriate role. The real question for us is how does our financing -- how does the market impact our financing? And that's actually the tougher question, coming up with an answer. So does that --

MR. CZUKER: How does the prevailing wage issue fit in?

MR. WARREN: It's not helping.

MR. CZUKER: Do you see any relief in sight for the prevailing wage issue over the next five years and how that might impact your plan?

MR. WARREN: Well, as far as -- and Terri can comment on the initiatives after, but as far as our plan, it contemplates prevailing wage within our construction loan program, so that per se does not necessarily impact, I think, our lending program. The larger problem is that this year we've had severe increases in lumber and other -- and steel, I think that's been a big issue. But I think the prevailing wage, it won't impact us as much as other lenders but -- or as much as it impacts mixed income.

No, I guess the straight answer is I think we can make our goal even with the restriction out there.

The third issue as far as budgetary for tax increment. CalHFA's budget is $20 million a year. It's a set amount. It's a competitive allocation. There's money budgeted for that. It's fine. Tax increment is basically $10 million. We're right now looking at loans between the size of between 4 to 7 million dollars. Obviously if we get several of those increments, the tax increment, we borrow the money for that and relend it, so we basically design off-the-self, on demand. And if that holds true, then basically the capacity for program, the goal, would be on.

MS. PARKER: Mr. Chairman, just a comment on the prevailing wage issue.

A couple things, Mr. Czuker. First of all, I think it's important to note that there are several state programs, MHP, Prop 46 funds, irrespective of the prevailing wage for the more general programs that are sort of subsumed in the broader definition as a result of legislation a couple years ago and the sunsetting occurring this year. It is the expectation at the moment that until there is some change to clarify it, that prevailing wage applies. The advocate groups, I think, have asked for clarification within the administration, specifically the Department of Industrial Relations, to look at the definitions and how it applies broadly to tax credit bond cap programs.

There hasn't been any response from the Department of Industrial Relations yet. I can't give you a sense of what the timing might be. But to the extent that they weigh in, they may or may not have a differing opinion. I think at the same time there continues to be some discussion of trying to talk to the unions about the implementation of prevailing wage. Clearly, although there is no increased staff in the Department of Industrial Relations to do any wage -- rage --

MR. CAREY: Wage rate study.

MS. PARKER: Thank you. And so to the extent that that is a way to ameliorate or offer some certainty to developers, there's no staffing to do that. So it really goes back to whether there's the ability to do some negotiations. And the problem right now is the way they explain it is it's really a case-by-case basis. I think this is going to continue to be an issue that will be emerging, and people will be beginning to document increased prices. And to the extent that that data is available and can be demonstrated, I think it will keep the discussion alive.

MR. CZUKER: Thank you.

CHAIRPERSON COURSON: Ms. Peterson.

MS. PETERSON: I said I wouldn't ask you too many long questions because you have an airplane to catch, which was pretty clever on your part. I think it goes without saying, all of us are very proud of your shop and all of the things that have been accomplished and all of goals that you have set.

I'd just like to mention a couple of things and that is when I came onboard with the Treasurer's Office five years ago, two of the things that we were really interested in sort of helping along with CalHFA were both the establishment of a preservation policy and looking a little bit more for some special needs programs, and both of those, I'm happy to say, have really been accomplished well by you and by your staff, Linn.

And I think also that another thing that really has come up just really very recently so most of the Board members, being new, aren't very aware of that and that is that we're going into the construction lending business, which is really a needed one as well, recognizing that there are a lot more issues that CalHFA has to deal with with respect to being a construction lender in terms of draws and so forth. So I commend you and the Agency for that.

I have two things that I'd like you to think about putting on the next year's agenda, and one of them may already have been there and just phrased in a slightly different way, and that first one does have to do with preservation. And notwithstanding the fact there have been some policies that have been developed, there are a variety of different kinds of loans and programs that we touch on, whether there's 236, Section 8, now expiring tax credits deals. I think that it may be worthwhile for staff to come back to the Board and look at the nuances in these different portfolios and maybe refine some of the policies as we're going forward and establish new ones where that's called for.

And lastly, I think there are only two of us on the Board, which is also pretty clever, so it's a totally new Board, practically, and one of the things that you didn't mention is something that the Agency undertook a couple of years ago, and as I said, I think only two of us are still surviving from that time, and I'd just like to ask if you could comment on what's happened with the loan portfolio that we purchased that we had great high hopes for being able to purchase mortgages and negotiate with the owners and so on.

MR. WARREN: It was four years ago.

MS. PETERSON: Time flies when you're having fun.

MR. WARREN: Time flies.

And I think probably a little bit of background is appropriate for the Board members that were not here. In the summer of 2000, Fannie Mae issued a rule which said you have a window to prepay their sizable 236 portfolio. These are HUD loans made 20 years ago. There are various complicated reasons as to why, but they had to do with the investment calibration of the market portfolio of Fannie.

At that point in time, then we commenced discussion that maybe we should go and buy these 270-odd loans from Fannie and position ourselves to basically preserve these and then refinance them. Later on in the summer, basically this window basically became a moot point. Fannie accounts decided it wasn't such a bad deal after all and went ahead with the sale. The way the sale worked was is the loans were basically transferred to us on paper, and Fannie took back basically a receivable bond, for lack of a better term. They took back paper for the sale of the loans.

We spent the next year basically contacting developers, developing financing plans to refinance these things on a pretty extensive basis. We contracted with CHPC and others to do just that.

As we went through the portfolio, what we found is that the owners, number one, wanted a lot of money for those and were unwilling pursuant to our loans. And the other thing we found is that 40 percent of the portfolio were nonprofits, and they said we're happy and there really is no need to push.

So basically we went at this for a year and didn't come off with many transactions and came to the conclusion that these would require a lot of subsidy and a lot of work. And we went into other preservation areas and other programs.

And we revisit this thing every year. We go back out and find out how far cap prices have been driven down. HUD has allowed mark-up to market, so the ability to do a portfolio-wide refinancing program was very problematic, because these just are one-off deals.

So what has happened is there's been very little runoff. There's been about 20 percent runoff of the portfolio since 2000. The ones that have run off, we've financed a few, HUD's financed a few, but most of them have gone through bonds and credits. A few of them have opted out, not a huge amount, and it tends to be community project based.

The comment I made earlier today about visiting with HUD and their banks I think is an attempt to go back and revisit the 236 portfolio with an alternative structure. It might be a restructure. It might be a pool financing restructure. We don't know yet. But to go out and to knock on the door, as was the original plan, of 275 of them and say do you want to refinance with us is tough to do.

So the goal is that we want to go back out and look at alternative structures. I think the point to remember is that, you know, we haven't had massive displacement of tenants. Most of the owners have stayed in the Section 8 program. They're getting their mark-up to market. Let's see what happens with the HUD discussion. So I think it was a noble idea, it's been tried, and it's just been tough.

CHAIRPERSON COURSON: Are there any other questions of --

MR. FRANKLIN: Just very quickly, very briefly, I think your points of emphasis are just spot on, particularly in construction lending, as Jeanne said. The homeownership development financing, I think as well. I think more and more localities are going to see the limits of down payment systems and get into more of the supply side strategy, which I think is where they need to be in homeownership. In the special needs, of course, both the state and owner cities are putting a lot of money into that.

My question is around the Prop 46 opportunity funds, Linn. Is it right that the total in that program is $50 million?

MR. WARREN: It's $45 million.

MR. FRANKLIN: Okay. So if you do your 15 a year for three years, you would spend it?

MR. WARREN: And I think that the way the legislation is written is at the end of fiscal year 2005, then the money reverts to MHP if it's unused.

MR. FRANKLIN: Okay. And my final thought on the 46 piece is, you know, the obvious dynamic is the State is looking for money. They took money from HCD last year. They took money -- they may take money from CalHFA this year. And at the same time, the industry, of course, is gearing up to make a case for either a permanent financing source for the State or another proposition. So if you run into the situation, and I don't have a judgment at this point as to whether you will -- if you run into the situation where some of these programs just aren't the right fit, then my advice would be to get ahead of that and, you know, take proactively a proposal to the legislature or others as to how to address that.

What you don't want to do, I think, is at the end of the scheduled time, the funds are sitting around, which would raise the question of the necessity of the financing source in the future. HCD has as much or more responsibility for that as CalHFA, but just some input there.

CHAIRPERSON COURSON: Thank you.

Any other questions?

(No audible response.)

CHAIRPERSON COURSON: Are there any questions from the public that Mr. Warren can answer?

(No audible response.)

CHAIRPERSON COURSON: Very good. Safe travels.

MR. WARREN: Thank you very much. I appreciate it.

MS. PARKER: Mr. Chairman, that concludes our presentation on the business plan portion for the Board's consideration. On behalf of the staff, we would ask the Board for -- ask the Board for your adoption of the proposed business plan.

CHAIRPERSON COURSON: Isn't there, I'm sorry --

MR. CZUKER: So moved.

CHAIRPERSON COURSON: And is there a second?

MR. AUGUSTINE: Second.

CHAIRPERSON COURSON: And we are voting on the resolution on page 227.

MS. OJIMA: Ms. Peterson.

MS. PETERSON: Actually, I'm not ready to vote.

CHAIRPERSON COURSON: Oh. Okay. There's more discussion.

MS. PETERSON: I'm just wondering, I'm not sure procedurally even how it's possible to do this, but if there's some way to add some notation that would say notwithstanding the possible use of -- what I'm suggesting is actually an amendment to the resolution, but to one specific part that deals with the single family. It would be to add language in the plan for adopting notwithstanding the possible use of all the Proposition 46 moneys earmarked for the Extra Credit Teachers Program, the Agency would have a commitment to continuing on with that program through the next five fiscal years.

CHAIRPERSON COURSON: Is there a second to the motion to amend?

MR. SHINE: What was that?

MR. MORRIS: Could you just restate it again?

CHAIRPERSON COURSON: Say it one more time, please.

MS. PETERSON: I didn't write it down, but what I said was that I would like to have an amendment to the single family part of the business plan that would indicate that notwithstanding the possible use of the funds in Proposition 46 earmarked for the Extra Credit Teachers Program, that the Agency would continue to make that commitment of a goal of up to 500 loans per year for the entirety of the five-year business plan.

What I mean by that is that at this point, as we saw in the presentation, it is anticipated only to use Prop 46 funds, the earmarked $20 million, I believe it is, to fund that program. And there have been numerous discussions about the Agency's commitment, and we believe that it's there, but I'd just like to have the Treasurer make sure that it is in the business plan, that should those funds from Prop 46 be totally expended, which they may or may not be, that the Agency's on record as making that commitment for the full five-year business plan.

CHAIRPERSON COURSON: So that is a motion to amend the resolution, is to continue the commitment beyond -- to that program beyond the expiration of Prop 46 funds.

MS. PETERSON: Yes.

CHAIRPERSON COURSON: At the 500-unit-per-year level.

MS. PETERSON: Goal.

CHAIRPERSON COURSON: Goal. That's the motion.

Is there a second to the amendment?

MR. CAREY: I'm just wondering procedurally if it's necessary to change. The resolution itself is very general. We're going to simply change the plan.

CHAIRPERSON COURSON: Right.

MS. PETERSON: Actually, that was what I was beginning to say when I began my comments, that I wasn't sure procedurally how this was -- you know, what was the best way to go about it is. Because obviously the plan is consistent with a series of goals, so if it's not necessary to amend the motion, I'd be happy not to do that.

MR. HUGHES: Well, I think that -- Mr. Chairman, technically Mr. Carey's right, that the resolution itself is simply adoption of the attached business plan, which if part of it's going to be changed, it would be a change in the underlying plan, not to the actual resolution.

MS. PARKER: Mr. Chairman, this may be kind of a point of clarification, because I realize that the schedule on page 188 is somewhat inconsistent with the narrative that is included in the plan later on in the Extra Credit Teacher Program. We're essentially saying there that we have a goal of 500 units per year. I think that the schedule on 188 demonstrates the expenditure or proposed expenditures of Prop 46. I think, certainly when I read this, it was not meant to be perceived that the Agency itself was backing away from the 500 loans per year, and in that sense we tried to take that into consideration in its overall financing.

So I think what I'd like to clarify for the record is if you look on page 196 where we talk about the Agency's goal of 500 loans annually, while the Prop 46 funds may be expended by 2008/9, that the business plan, as the staff really are presenting it and handing it to you, has a commitment of 500 loans per year. It could either be achieved in the out years by moving some portion of those dollars that are not expended in the current year, rolling forward, and/or prepayments that will bring money back in. And I would imagine by the time that we put this together next year, the expenditure of Prop 46 funds will probably carry through that five-year business plan period, depending on our success.

But I think that the staff's plan, however you pose it, had always intended 500 loans, and perhaps with the clarification of that as our submittal to you or clarifying that in the plan, that will alleviate Ms. Peterson's concern.

MR. LAVERGNE: If I might, my name is Dick LaVergne with CalHFA. The intent was to show the total commitment of the initial Prop 46 moneys, but since we were just in the beginning phase of implementing that program, it was really unknown to the extent that recycled funds would be available or even carryover funds. But it is our intent to maximize the use of those Prop 46 moneys for as long as they're available and to the maximum extent possible.

MS. PETERSON: Thank you. That, I believe, clarifies it. Actually, that was my belief all along up until this morning and when I saw the slide. And with that understanding, I think there's no need to amend, with the explanation from Mr. Hughes that it really wouldn't be appropriate to amend the resolution because we're talking about the whole plan. I think with that clarification, the Treasurer's Office would be most happy to be supportive of the resolution.

CHAIRPERSON COURSON: There is a motion and a second to approve the resolution on page 227.

Call the roll.

MS. OJIMA: Thank you.

Ms. Peterson.

MS. PETERSON: Aye.

MS. OJIMA: Mr. Bayuk.

MR. BAYUK: Aye.

MS. OJIMA: Mr. Carey.

MR. CAREY: Aye.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Aye.

MS. OJIMA: Mr. Franklin.

MR. FRANKLIN: Aye.

MS. OJIMA: Ms. Gallo.

(No audible response.)

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Aye.

MS. OJIMA: Thank you.

Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Aye.

MS. OJIMA: Resolution 04-13 has been approved.

CHAIRPERSON COURSON: Okay.

Item 6: Discussion, recommendation and possible action relative to adoption of resolution approving fiscal year 2004/2005 CalHFA Operating Budget

Resolution 04-14

MS. PARKER: Mr. Chairman, just as an introduction for the Board Resolution 04-14 and for the benefit of the new Board members, the agency is in somewhat of a unique position as a state agency in that the Board itself at this point in time every year adopts the California Housing Finance Agency's operating budget for the year. We are not included in the Governor's budget except for information. We do not go through the legislative budget approval process. Instead, it is accomplished here today for your consideration.

Mr. LaVergne has worked with Jackie Riley, our Director of Admin. who is ill and that's why she's not here today, to go through our proposed operating budget.

I would just make a couple of comments about it. Obviously we have put an operating budget together that is predicated on the assumption of what resources the Agency needs to carry out the business plan as proposed. It does not increase any -- it does not provide any increases in staff this next year, although it does recognize that there was a fairly large increase in staff this year, but it doesn't move forward.

Dick can talk with you about where the increases are, there are really only three or four areas in this operating budget, and answer any specific questions that you have. But we submit the budget for your consideration.

CHAIRPERSON COURSON: Mr. LaVergne.

MR. LAVERGNE: As Terri mentioned, the budget before you for the coming fiscal year proposes no increase in staff. Any workload or new program that has been presented to you as part of the business plan will be staffed with resources available, staff resources available, from existing resources. Some of those resources have been redirected so that the business plan goals can be met.

In addition, the budget for the coming fiscal year requires for the most part a number of mandatory changes from -- from state government. One of the more significant ones is, as was mentioned, a -- the collective bargaining in the current year of 5 percent salary increase for all state employees. That increase was not funded, but instead for the first year was implemented as a leave in lieu of pay. However, the administration through the Department of Finance for the coming fiscal year has included in the budget the actual pay and is discontinuing the leave aspect of the -- of the budget increase effective July 1. That accounts for almost $1.2 million, $1.1 million, of the proposed increase.

I might -- before I go into the current year to budget year change, I might just explain a little further about the change from past year to current year, particularly for the newer Board members. Last year the Agency came before the Board with essentially two major goals. The first was to make sure that the infrastructure was in place for the Agency not only to address the new programs, but we found that we were woefully behind in terms of providing the information technology, the legal staffing, the multifamily staffing, to deal with the increase in multifamily that last year went from closing 13 loans to closing 29 loans. And that level is continuing on in the current budget year.

In addition, as has been mentioned several times, is the implementation of Prop 46, the Agency's ever-growing portfolio of over $4 billion in swaps governing 100 swap agreements, which makes it the largest swap portfolio of a public agency in the country.

In addition, the fiscal service of the accounting service of the loan servicing services were all behind the curve at that point. And this Board and the Agency took action to provide the resources to not only play catchup, but to -- as has been presented to you, to create the kinds of programs and services that match the private industry.

In terms of the current to budget year changes, the four primary changes are referenced in the cover letter to the Board resolution. The first one is an increase in the general expense category of almost $200,000. That increase is for marketing campaigns, trade shows, postage, miscellaneous -- various miscellaneous expenses.

The second increase is facilities operation. That's almost $265,000. That increase is the lease increase for all three of the agency's offices, as well as the full year costs of the agency's office space in Meridian. The Agency, for the benefit of the newer Board members, just moved into that space approximately last November, and the full year cost had not been included in the budget and is done so for the first time this year.

The third increase is in consulting and professional services. And that increase is $550,000, and that increase covers, as I mentioned earlier, technology upgrades, also two lawsuits that the Agency is engaged in. The legal services are included in that line for the lawsuits. Bond tax computations, multifamily -- the Agency's new multifamily construction program, contracting consulting services to help underwrite that program. In addition, the resources necessary to implement the Agency's tax increment funding program, as well as new software for not only multifamily, but also asset management and also the Agency is undertaking putting into place an image -- image management system that the Agency has not had previously but does need based on the incredible volume of documents that we have.

Finally, under central administrative services, which is somewhat of a misdefined line, for most non-state folks. And that line is essentially the pro rata line for the State of California that it charges each of the non-General Fund agencies. It includes such things as a charge for the State Library. It includes a pro rata charge for the operation of the state legislature. It includes a pro rata charge for financial services, the State Controller's Office, the Treasurer's Office. We are billed for those services, whether we use them or not. It is our pro rata share.

Quite frankly, over the last two years, the State of California, due to budget crunches elsewhere in its budget, has been increasing those charges. And our expenditures have increased not only for that, but also as mentioned in the cover letter an audit from the Department of Finance that audited the Agency's operation from the floor to the ceiling, involving loan servicing, financial, operations, and I might -- a report was provided to the Board, but for the newer members, the Agency received a very clean bill as a result of that audit, but the charge for doing that is included in the pro rata services.

With that, as Terri mentioned, there are no new staff increases. The four items that I mentioned provide for the other increases. The -- almost all of the personnel increases from the current to next year are as a result of putting into place the administration's negotiated 5 percent pay increase and the health benefits tied to that.

If I may answer any questions on the budget, I'd be more than happy to do so.

CHAIRPERSON COURSON: Dick, let me make a comment and then a question. I was struck in reading through this material and not in this budget part, in the previous part, the -- starting through and thinking through the concept of our equity and net restricted assets and then reading page after page of reserves, holdbacks, restrictions and so on and make a decision as to make all that math work, I would ask the question, and I guess one of the things that we had talked about in discussing this with Terri, in particular, is perhaps the ability of putting together a matrix for the Board to take a look. I mean, when you look through the Board package, there are numerous setoffs, reserves, holdbacks, restrictions. And I thought it would be helpful for me to sort of see in a matrix 101 setting what those are as a call against our equity.

In the private world, equity has certain connotations to it that I now in the last 60 days have learned has a different connotation in the operation of this fund. And I think it would be a good exercise. And so I think Bruce did some work on that for us.

The question is the other, in sort of somewhat naivete, is I looked at a couple of pages in the budget sections, page 231 and page 241. And I looked at that and I said, gee, you know, there are some pretty dramatic increases taking place here in page 231, which is really sort of looking at the expenditures, if you will, in the operating -- housing operating funds. And then going over to page 241, I looked at that and said, if you go back and look at the operating accounts, if you would, at the end of June 30, 2002, and then sort of look at some of the movements in that fund over the last couple years and where it ends up projected at the end of June 30 of '05 and -- and can you just take a couple minutes to explain that fund and how it works and --

MR. LAVERGNE: Absolutely.

CHAIRPERSON COURSON: -- why that move takes place?

MR. LAVERGNE: Absolutely.

Let me start with page 241 first and see if that will get us to the core of your point. What page 241 reflects is only the operating account. It does not reflect all the revenues of the Agency. Frankly, the revenues of the Agency and part of the presentation that Bruce and his staff are actually working on currently for the Board, as was mentioned earlier in the S & P presentation, will incorporate into a Finance 101 presentation in terms of how the Agency's funds flow as well as how they're committed, how they get to that Housing Assistance Fund, and how they get into the operating account.

Just in a very broad sense, as kind of a prelude to that, essentially the Agency finances its programs first. Its reserves are allocated to those required to meet very specific bond requirements for the bondholders, if you will. All of the reserves flow into those accounts.

Once those accounts are filled, those obligations are retained, then it flows into the second pot, if you will. The second pot is risk related to the portfolio, earthquake risk, risk related to some of the financial arrangements that we have and so on.

The third pot that the money flows into from the Agency's net reserves is the operating account in order to manage the Agency's portfolio, its business plan, as well as cover risk.

Finally, what is left over essentially flows into the Agency's Housing Assistance Trust, and those moneys, although committed for the benefit of the bondholders to cover the Agency's general obligations and so on, the Agency, rather than investing those moneys in securities, takes that fourth pot of funds and invests them in things such as HELP, such as subsidy loans for projects, for down payment assistance and so on. And those reserves, as well as the returns, are then calculated as a part of meeting the Agency's capital adequacy requirements and also, again, kind of flowing back into the pots, making sure that those investments meet the criteria necessary to cover the Agency's risks related to the bonds and its insurance program.

So what this -- what page 241 reflects is the flow of those funds into the agency's pot for the operating reserve. And flowing into that pot are under -- and I'll go to the left side of the column -- the column on the page, the housing revenues coming in, which is $3.6 million in administrative fees for single family and our second loan programs. We also receive a fee for administering HUD multifamily Section 8 projects. That is that revenue. We also gained some interest on our impounds related to those projects. It's a very small amount, as you can see, but we do account for it.

Then there is the recognition of the commitment fees, SMIF interests on our fund balances not directed towards the bond issues. And then finally to round out the funds necessary to operate the Agency's -- to fund the Agency's operations, an amount in transferred in from available reserves, flows into the operating account pot to finance the entire budget. So the budget is financed from a variety of sources, and the transfers, the operating transfers, make up essentially the difference.

Finally, there are insurance revenues coming in, which their pro rata share, the cost of their budget. And then against that, are the operating budgets for housing and insurance of our -- say, in the past year of the 23.3 million, 21 million was funding in a much larger housing portion. Housing was the lead portion of these programs, which is single family, multifamily, and then the smaller amount, almost one-tenth of the Agency's operating budget, is the amount necessary to fund its insurance operations.

And finally, that essentially takes us down to the bottom of the page and sets up then the reserves necessary to start the next year's cycle all over again. The $27.2 million ending balance then becomes the starting balance for the next year. We -- our budgeting requirements for the Agency provide that we have -- that we start the year with a full year of availability of funds, but those funds aren't -- aren't left fallow. Those funds will be used for capital adequacy requirements, for rate agencies, to cover our general obligation requirements. They're also on call to fund any possible emergency that may come up.

So does that --

CHAIRPERSON COURSON: Thank you. Yes.

MR. LAVERGNE: Okay. In terms of how the Agency's funds flow through the budget -- and the matrix idea is an excellent one in terms of explaining how the Agency's various commitments and the financial section in the back of the business plan all ties together in terms of how this funding moves.

CHAIRPERSON COURSON: Questions on the budget?

MR. AUGUSTINE: I just have one minor question on the charges the Department of Finance as to their audit, is that going to be a one-time charge or are they going to put that as a three-year rolling formula?

MR. LAVERGNE: You never know. But what has happened in the past year is that there was a charge, a significant charge, for the Department of Finance audit. What the Department of Finance formula provides for is essentially that charge is carried forward and combined so that it does show up in the 2004/5 expenditure plan. If they don't audit us, there could very well be an adjustment reducing that charge. In the following year, you would then see a reduction for that purpose. But they have -- but they use a rolling system where they pick up past year charges, roll it forward, roll it forward, and make adjustments after the fact.

MS. PARKER: We'll certainly be watching for that. And I think it's also fair to say that we did talk to the Board about this when this occurred. Finance had done an audit for the Housing Finance Agency probably a decade ago. So when they did do it, I think it was something that we welcomed and at the time were certainly prepared to pay for.

MR. LAVERGNE: I might also mention that the Agency was also audited by the Bureau of State Audits last year and also received a clean bill of health from that audit, but we were charged for it, and it's under pro rata.

CHAIRPERSON COURSON: Are there other questions? Mr. Carey.

MR. CAREY: You may have mentioned this and I missed it. The staffing budget for the current year reflected an increase of about 55 positions. To what extent was that actually realized? Were those positions filled?

MR. LAVERGNE: Actually, what the -- what the business plan for the current year provided for was a net increase of 32 positions. However, as had been presented to the Board previously, the Agency's had a tremendously difficult time filling positions. And from the past year to the current year, we didn't fill 26 positions. So the difference you see in funding is essentially not filling positions in the past year and then providing for the workload. We had essentially kind of doubled the workload. When we did that, we weren't able to fill the vacancies that we had, plus we needed additional staff for the additional workload.

This year we've been a little bit more successful. Multifamily, for instance, for the first time in a number of years was able to fill six loan officers, which is one of the things that contributed to being able to do the volume that they did from the past year to the current year.

In addition, Legal has been able to fill a few legal counsel positions, and we've also been progressively staffing our fiscal services as the workload has come in.

CHAIRPERSON COURSON: What is the current authorized in the --

MR. LAVERGNE: The current year is the same as the budget year. It is a total of 278 total positions. The net number of positions, the State requires that we recognize that there will be some savings there. And so that savings deducts 14 positions from it. So our net number of positions for the Agency, physical -- up to physical bodies would be about 264.

MS. PARKER: Mr. Chairman, let me just add one comment to what Dick had to say to perhaps just add another wrinkle in the environment. At the conclusion of or the -- well, actually, last year in going through the budget cycle, there was a discussion with the administration about having a freeze on positions while the negotiations were going on and salary increases and certain -- the change in the administration. Now, we have always been treated, the Housing Finance Agency, as not being -- it didn't have to be impacted by those freezes, but we have authority which allows us to make sure that we have the resources in place to meet our fiduciary responsibilities.

However, we are -- we work with the executive branch. And rather than just essentially go forward without a conversation with our colleagues in the Department of Finance, the Agency, we -- we were delayed in filling some positions while we went through our discussions with them, reminding them of our unique position. So those constraints, as a courtesy, added to our ability to move forward and fill positions as quickly as we wanted to, and in some cases, those took a couple of different discussions to clarify. So that added to our burden with, you know, the ability to recruit and retain staff in an environment where clearly although we have the bodies to be able to hire, the salaries continue to be a problem for us.

CHAIRPERSON COURSON: Mr. Morris.

MR. MORRIS: I plan to support the operating budget for '04/05, but in the future I'd like to see more detail in the line items. I think given the Agency's budget, we don't have any detail for any of the line items. And in the future, this next year, I'd like to see a breakdown per line item exactly what these expenses are.

MR. LAVERGNE: Absolutely. We can provide that.

CHAIRPERSON COURSON: Other questions on the budget?

(No audible response.)

CHAIRPERSON COURSON: Is there a motion to approve Resolution 4-14 on page 243?

MR. MORRIS: So moved.

CHAIRPERSON COURSON: Mr. Morris moves.

Is there a second?

MR. CAREY: Second.

CHAIRPERSON COURSON: Carey seconds it.

Any further discussion?

(No audible response.)

CHAIRPERSON COURSON: Any discussion from the public?

(No audible response.)

CHAIRPERSON COURSON: Call the roll.

MS. OJIMA: Thank you, Mr. Chairman.

Ms. Peterson.

MS. PETERSON: Aye.

MS. OJIMA: Mr. Bayuk.

MR. BAYUK: Aye.

MS. OJIMA: Mr. Carey.

MR. CAREY: Aye.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Aye.

MS. OJIMA: Mr. Franklin.

MR. FRANKLIN: Aye.

MS. OJIMA: Mr. Augustine.

(No audible response.)

MS. OJIMA: Mr. Morris.

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Aye.

Here's Mr. Augustine.

MS. OJIMA: Mr. Augustine.

MR. AUGUSTINE: Aye.

MS. OJIMA: Thank you, Mr. Augustine.

Resolution 04-14 has been approved.

CHAIRPERSON COURSON: Thank you.

Item 7: Discussion of other Board matters and reports

CHAIRPERSON COURSON: The -- in your book, the Board book, you see there are other Board reports for your information and there's a handout on our -- just a status report on our variable-rate bonds and swaps for your information. If there are any questions, obviously you can respond to those. If as you read them at a later time also, you have the responsibility to call the appropriate staff member to have your questions answered.

Are there any other matters to come before the Board?

(No audible response.)

Item 9: Public testimony

CHAIRPERSON COURSON: Is there any public testimony to come before the Board?

(No audible response.)

CHAIRPERSON COURSON: Seeing none, we are going to recess and have a very brief executive session for just members of the Board for a briefing by our legal counsel.

(Whereupon the Board met in closed executive session at 12:18 p.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 19th day of May, 2004.

Yvonne Fenner

Yvonne K. Fenner
Certified Shorthand Reporter
License No. 10909, RPR

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CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
The Crossings
San Diego, County of San Diego, CA
CalHFA # 04-006-C/S

SUMMARY

This is a final commitment request. Security for the loans will be a proposed 108 unit apartment complex to be constructed near the north edge of the City of San Diego east of I-5 and Del Mar. The property will be owned by CIC Crossings, L.P. (a California limited partnership) whose general partner is SDS Crossings, LLC, a California limited liability company.

The Crossings is a proposed 108 unit family apartment complex located in a 2,652 acre developing planned residential community known a Pacific Highlands Ranch. The Crossings will fulfill the inclusionary zoning requirement imposed by the City of San Diego. Pardee Homes is the developer of Pacific Highlands Ranch.

LOAN TERMS

Construction

First Mortgage	$14,160,000
Interest Rate	3.00%, variable
Term	18 Months, interest only
Financing	Tax-exempt

CalHFA construction financing is subject to the assignment by the borrower of tax credit equity and all rights under non-CalHFA financing commitments.

Permanent

First Mortgage	$4,860,000
Interest Rate	5.7%
Term	30 year fixed, fully amortized
Financing	Tax-exempt

OTHER FINANCING

Source	Type	Loan Amount	Term	Interest Rate	Repayment
MHP	Loan	$6,573,514	55	3.0%	Residual Receipts

PROJECT DESCRIPTION

Project Location

- The Subject is located near the north edge of the city of San Diego, California
- Nearest cross streets are Carmel Valley Road and Rancho Santa Fe Farms Road, between Interstate 5 and Interstate 15 and one-half mile north of the Ted Williams Freeway scheduled to be completed by 2005
- The Subject is located in the southwest part of the 2,652 acre Pacific Highlands Ranch planned community for 5,456 residential units with 1,300 acres of open space and hiking, biking and walking trails to connect the residential neighborhoods to schools and regional transit systems
- The subject's proximity to neighborhood facilities is as follows:
  - Ralph's Supermarket – 2.5 miles
  - Pharmacy, Rite Aid – 2.5 miles
  - Ashley Falls Elementary School – 1.2 miles
  - Carmel Valley Middle School – 2.6 miles
  - Torrey Pines High School – 1.9 miles
  - Carmel Valley Library – 2.5 miles
  - Green Hospital (Scripps Clinic) and Scripps Memorial Hospital – within 5.8 miles
  - Scripps Health Group medical office complex – 2.5 miles
  - Transit center with connection to downtown San Diego – 0.8 miles
  - There are also plans to construct an employment center, a city park and several schools nearby.

Site

- 6.09 acres located in the southwest part of a 2,652 acre planned residential community.
- The site is vacant and has been graded.
- The proposed project is a conforming use.

Improvements

- Nine residential two-story buildings (12 units per building), one-story recreation building, swimming pool, tot lot and picnic area.
- The proposed structures will be of wood frame and stucco/stone veneer with concrete tile roofs and heating and air conditioning by heat pumps.
- Amenities include 90 garage spaces, 34 tandem uncovered spaces and 104 uncovered spaces for a total of 228 parking spaces (2.11 parking spaces per unit). The recreation building will include a community room, kitchen, classroom with computer stations, office, storage space and trellis covered patio.
- The residential units will be walk-up stacked flats and townhouses with refrigerators, dishwashers, gas ranges, balconies or porches. 10 enclosed parking spaces will be assigned to each building.

Unit Mix

No. of Units	No. of Bedrooms	No. of Bathrooms	Average Unit Square Footage
18	1	1	681
54	2	2	938
36	3	2	1,225

MARKET

Market Overview

The subject Primary Market Area (PMA) is between Interstate 5 and Interstate 15 with a northern border of the San Diego City limits and Mira Mesa Boulevard for its southern border. For 2003, the estimated population was 3,068,415 for San Diego County and 131,225 for the PMA. Renters are 25.8% of this predominantly urban PMA and some of the largest employers in San Diego County for 2003 were as follows:

Employer	Industry	Location
County of San Diego	Government	San Diego
Department of Defense	Government (Navy)	San Diego
National Steel & Shipbuilding	Manufacturing	San Diego
Qualcomm, Inc.	Communications equipment	Encinitas

Housing Supply and Demand

- According to the San Diego Housing Commission -
  - 11,690 vouchers are issued and utilized
  - 33,303 are on waiting lists for public housing
  - 27,600 are on the Section 8 waiting list
- The Subject is in a developing area and there is only one other planned affordable housing development in the PMA, which is the 119 unit Rancho Del Norte approximately 6 miles northeast of the Subject.
- There are seven existing multifamily developments offering affordable housing units –
  - Longacres at Seabreeze is a 38 unit multifamily development located 1.6 miles southwest of the Subject owned by this developer. Two and three bedroom units are offered to households earning 65% of AMI. This project is 100% occupied with a waiting list of over 100 households.
  - Canyon Rim Apartments is a 504 unit multifamily development located 5.4 miles northeast of the Subject. 70% are affordable and 100% occupied with a 2 to 3 month waiting list.
  - CalHFA financed Torrey Del Mar is a 112 unit multifamily LIHTC development located 1.3 miles east of the Subject and offering one, two and three bedroom units at 30%, 45% and 60% of AMI. The property is 100% leased with a 500 household waiting list.

- Torrey Highlands is a 76 unit multifamily affordable housing development offering two and three bedroom units at 50% and 60% of AMI. One unit is vacant and there is a two to three year waiting list.
- Windward Village is a 92 unit affordable housing multifamily development by the Subject's sponsor. This project opened June 2003 and was fully leased in less than two months. It is 100% occupied with a 600 household waiting list.
- Villa Glen is a 26 unit multifamily LIHTC development offering one, two and three bedroom units at 50% and 60% of AMI. The property is 100% occupied with a waiting list of 100 households.
- Villa Andalucia is a 32 unit LIHTC multifamily development offering one, two, three bedrooms at 50% and 60% of AMI. It is 100% occupied with a 100 household waiting list.

PROJECT FEASIBILITY

Rent Differentials (Market versus Restricted)

Unit Type	Subject Rents	Market Rate	$ Difference	% of Market
One Bedroom		$1,262		
25%	$321		$941	25%
30%	$356		$906	28%
35%	$420		$842	33%
50%	$613		$649	49%
55%	$677		$585	54%
Two Bedroom		$1,586		
25%	$385		$1,201	24%
30%	$426		$1,160	27%
35%	$503		$1,080	32%
50%	$735		$851	46%
55%	$812		$774	51%
Three Bedroom		$2,080		
25%	$428		$1,652	21%
30%	$469		$1,611	23%
35%	$555		$1,525	27%
50%	$811		$1,269	39%
55%	$897		$1,183	43%

Estimated Lease-up Period

- 100% occupancy is projected within 90 days of construction completion for an absorption rate of 36 units per month.
- 100% occupancy is projected prior to expiration of the construction loan and conversion to the permanent loan. A rent-reserve was not required.

OCCUPANCY RESTRICTIONS

CalHFA	20% of the units will be restricted at 50% or less of AMI.
City	10% of the units will be restricted to 60% or less of AMI. 10% of the units will be restricted to 80% or less of AMI.
TCAC	100% of the units will restricted to 60% or less of AMI.
HCD	11% of the units will be restricted (MHP) to 25% of AMI 11% of the units will be restricted (MHP) to 30% of AMI 11% of the units will be restricted (MHP) to 35% of AMI 34% of the units will be restricted (MHP) to 50% of AMI 33% of the units will be restricted (MHP) to 55% of AMI

ENVIRONMENTAL

A Phase I Environmental Assessment report was completed on March 12, 2004. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

A seismic evaluation is in process. The Borrower has requested an earthquake insurance waiver and a review of this request is underway. If the waiver is denied, the loan amount may decrease so that the earthquake insurance premium can be paid.

DEVELOPMENT TEAM

Borrower

- The Sponsor, Chelsea Investment Corporation, has been developing affordable housing since 1987. The Borrower and owner will be CIC Crossings, L.P. (a California limited partnership). Pacific Southwest Community Development Corporation is the administrative general partner and SDS Crossings, LLC, a California limited liability company, is the managing general partner. The investor has not been determined.

- Construction Security required from the Borrower is shown as a letter of credit. Subject to review and approval of the financial information provided by the Borrower and compliance with the Agency's underwriting standards, staff may approve a corporate completion and repayment guarantee, in lieu of a letter of credit.

Management Agent

- Currently, CIC Management, Inc., an affiliate of Chelsea Investment Corporation, manages 10 projects with a total of 1,514 units in California and Arizona and 6 projects with a total of 383 affordable housing units in San Diego.

Architect

- The architect is Humphrey and Partners, a national architectural firm headquartered in Dallas, Texas. As of June 14, 2004, this company had designed 12 market rate projects throughout the United States totaling 2,515 units as well as 8 affordable housing multifamily projects totaling 1,704 units.

Contractor

- The Contractor is Pardee Homes with over 75 years of residential (single and multifamily) and commercial development in the San Diego area. Pardee Homes is developing the 2,652 acre Pacific Highlands Ranch master planned community and the Subject will provide the initial affordable housing units required by the City of San Diego.
- The Contractor will post performance and payment bond.

Project Summary

Date: 22-Jun-04

Project Profile:

Project :	The Crossings				
Location:	Carmel Valley Road	**Appraisal:**			
	San Diego	Cap Rate:	6.75%		
County:	San Diego	Final Value:	$ 14,225,000		
Borrower:	CIC Crossings, L.P.	Construction:	$ 17,650,000		
GP:	SDS Crossings, LLC				
GP:					
LP:	James J. Schmid	**LTC/LTV:**	**Construction**	**Permanent**	
Program:	Tax-Exempt	Loan/Cost	78%	27%	
CalHFA # :	04-006-C/S	Loan/Value	80%	34%	

Project Description:

Units	108
Handicap Units	4
Bldge Type	Wood frame & stucco
Buildings	10
Stories	2
Gross Sq Ft	108,810
Land Sq Ft	265,280
Units/Acre	18
Total Parking	228
Covered Parking	90

Financing Summary:	Amount	Per Unit	Rate	Term
CalHFA First Mortgage	$ 4,860,000	$ 45,000	5.70%	30
HCD - MHP	$ 6,573,514	$ 60,866	3.00%	55
0	$ -	$ -	3.00%	55
0	$ -	$ -	3.00%	55
Borrower Contribution	$ -	$ -		0
Deferred Developer Equity	$ 342,112	$ 3,168		0
Tax Credit Equity	$ 6,728,000	$ 62,296		
CalHFA Construction Loan	$ 14,160,000	$ 131,111	3.00%	18 months
Tax-exempt Portion	$ 14,160,000	$ 131,111		
Taxable Portion	$0	$0	0.00%	-

Unit Mix:

Type	25% AMI		30% AMI		35% AMI		50% AMI	
	number	rent	number	rent	number	rent		
1 bedroom	2	292	2	356	2	420	6	383
2 bedroom	6	349	6	426	6	503	18	613
3 bedroom	4	383	4	469	4	555	12	735
4 bedroom								
subtotal	12		12		12		36	

Type	55% AMI		0% AMI		0% AMI		Manager		Total
	number	rent	number	rent	number	rent	number	rent*	
1 bedroom	6								18
2 bedroom	18								54
3 bedroom	11						1	897	36
4 bedroom									
subtotal	35		-		-		1		108

Fees, Escrows, and Reserves:

Permanent		Basis of Requirements		Amount	Security
Fees	CalHFA Permanent Loan	0.50%	CalHFA permanent loan amount	$24,300	Cash
Escrows	Construction Defect	2.50%	of Hard Costs	$262,246	Letter of Credit
Reserves	Operating Expense Reserve	23.48%	of Gross Income	$203,914	Letter of credit
	Initial Replacement Reserve Deposit	0.60%	of hard costs	$62,939	Cash
	Annual Replacement Reserve Deposit	$350	per unit	$55,160	Operations

Construction		Basis of Requirements		Amount	Security
Fees	CalHFA Construction Loan	1.00%	of loan amount	$141,600	Cash
	Inspection fee	$1,500	x months of construction	$27,000	Cash
	Completion guarantee LOC	1.00%	of letter of credit	$11,983	LOC fee
Guarantees	Completion Guaranty--Borrower	10%	of construction contract	$ 1,198,342	Letter of Credit or Cash
	Performance Bond--Contractor	100%	of construction contract	$ 11,983,419	Bond
	Payment Bond--Contractor	100%	of construction contract	$ 11,983,419	Bond

SOURCES AND USES

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SOURCES:

	Permanent Dollars	Construction	Percent of Total Perm Sources	Interest Rate
CalHFA First Mortgage	4,860,000		26.3%	5.70%
CalHFA Bridge	-		0.0%	0.00%
CalHFA HAT	-		0.0%	0.00%
CalHFA Construction Loan		14,160,000		0.00%
CalHFA Construction Loan		-		3.00%
HCD - MHP	6,573,514	-	35.5%	3.00%
-	-	-	0.0%	3.00%
-	-	-	0.0%	3.00%
-	-	-	0.0%	0.00%
Borrower Contribution	-	-	0.0%	
Deferred Developer Equity	342,112	835,605	1.8%	
Tax Credit Equity	6,728,000	3,236,168	36.4%	
Total Sources	**18,503,626**	**18,231,773**	100.0%	
(Gap)/Surplus	(0)	(0)		

USES:

	Total Cost	**Construction Budget**	**per unit**	**pct of total**
ACQUISITION				
Total Land Cost or Value	-	-	-	0%
Legal/Broker Fees	25,000	25,000	231	0%
Demolition	-		-	0%
Off-Site Improvements	25,000	25,000	231	0%
Existing Improvements Value	-		-	0%
Other	-		-	0%
Total Acquisition Cost	**50,000**	**50,000**	463	0%
NEW CONSTRUCTION				
Site Work	1,296,535	1,296,535	12,005	7%
Structures	9,193,307	9,193,307	85,123	50%
General Requirements	611,907	611,907	5,666	3%
Contractor Overhead	244,763	244,763	2,266	1%
Contractor Profit	611,907	611,907	5,666	3%
Other	-	-	-	0%
Total New Const. Costs	**11,958,419**	**11,958,419**	110,726	65%
ARCHITECTURAL FEES				0%
Design	300,000	300,000	2,778	2%
Supervision	100,000	100,000	926	1%
Total Architectural Costs	**400,000**	**400,000**	3,704	2%
	-		-	0%
SURVEY & ENGINEERING	**100,000**	**100,000**	926	1%
CONST. INTEREST & FEES				
Const. Loan Interest	497,182	497,182	4,604	3%
Construction Loan Fee	141,600	141,600	1,311	1%
Legal	65,000	65,000	602	0%
Completion Guaranty LOC Fee	11,983	11,983	111	0%
Bond Premium	157,348	157,348	1,457	1%
Taxes	37,000	37,000	343	0%
Insurance	190,000	190,000	1,759	1%
Title and Recording	5,000	5,000	46	0%
Construction Inspection Fee	27,000	27,000	250	0%
Total Const. Interest & Fees	1,132,113	1,132,113	10,483	6%

PERMANENT FINANCING				
CalHFA construction loan fee			-	0%
CalHFA permanent loan fee	24,300	24,300	225	0%
Application Fee	500	500	5	0%
Title and R	-	-	-	0%
MHP Cons	-	-	-	0%
HAT Bridg	-	-	-	0%
HUD Environ. Review	-	-	-	0%
Legal	5,000	-	46	0%
Total Perm. Financing Costs	**29,800**	**24,800**	276	0%
LEGAL FEES				
Lender Legal Fee			-	0%
Owner Legal	50,000	50,000	463	0%
Other	-	-	-	0%
Total Attorney Costs	**50,000**	**50,000**	463	0%
RESERVES				
CalHFA Required Rent-up Reserves	-	-	-	0%
Operating Expense Reserve	203,914	-	1,888	1%
Initial Replacement Reserve	62,939	-	583	0%
Letter of Credit Costs	-	-	-	0%
Other	-	-	-	0%
Total Reserve Costs	**266,853**	-	2,471	1%
CONTRACT COSTS				
Appraisal	10,000	10,000	93	0%
Market Study	10,000	10,000	93	0%
PNA	-	-	-	0%
Eq Ins. Waiver/Seismic Review	-	-	-	0%
Environmental Review	-	-	-	0%
Total Contract Costs	**20,000**	**20,000**	185	0%
CONTINGENCY				
Hard Cost (	524,491	524,491	4,856	3%
Soft Cost Contingency	128,489	128,489	1,190	1%
Total Contingency Costs	**652,980**	**652,980**	6,046	4%
OTHER				
TCAC App/Alloc/Monitor Fees	54,111	54,111	501	0%
Environmental Audit and Soil Report	10,000	10,000	93	0%
Predevelopment loan int and fees	-	-	-	0%
Asbestos/Lead-based Paint Report	-	-	-	0%
Permit Processing Fees	1,916,814	1,916,814	17,748	10%
Local Impact Fees	-	-	-	0%
School Fees	517,536	517,536	4,792	3%
Marketing Budget	50,000	50,000	463	0%
Furnishings	50,000	50,000	463	0%
Syndication costs	-	-	-	0%
Total Other Costs	**2,598,461**	**2,598,461**	24,060	14%
PROJECT COSTS	**17,258,626**	**16,986,773**	159,802	93%
DEVELOPER COSTS				
Developer Overhead/Profit	1,200,000	1,200,000	11,111	6%
Consultant/Processing Agent	-	-	-	0%
Project Administration	45,000	45,000	417	0%
Total Developer Costs	**1,245,000**	**1,245,000**	11,528	7%
TOTAL PROJECT COST	**18,503,626**	**18,231,773**	171,330	100%

Annual Operating Budget

The Crossings

		$ per unit
INCOME:		
Total Rental Income	858,168	7,946
Laundry	10,368	96
Other Income	-	-
Commercial/Retail	-	-
Gross Potential Income (GPI)	**868,536**	**8,042**
Less:		
Vacancy Loss	43,427	402
Total Net Revenue	**825,109**	**7,640**
EXPENSES:		
Payroll	88,982	824
Administrative	88,418	819
Utilities	54,000	500
Operating and Maintenance	107,000	991
Insurance and Business Taxes	26,800	248
Taxes and Assessments	2,000	19
Reserve for Replacement Deposits	55,160	511
Subtotal Operating Expenses	**422,360**	**3,911**
Financial Expenses		
Mortgage Payments (1st loan)	338,490	3,134
Total Financial	**338,490**	**3,134**
Total Project Expenses	**760,850**	**7,045**

Cash Flow — The Crossings — CalHFA Development Number: 04-006-C/S

RENTAL INCOME	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Market Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Market Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	858,168	879,622	901,613	924,153	947,257	970,938	995,212	1,020,092	1,045,594	1,071,734
TOTAL RENTAL INCOME	**858,168**	**879,622**	**901,613**	**924,153**	**947,257**	**970,938**	**995,212**	**1,020,092**	**1,045,594**	**1,071,734**
OTHER INCOME										
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Laundry	10,368	10,627	10,893	11,165	11,444	11,730	12,024	12,324	12,632	12,948
Other Income	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	**10,368**	**10,627**	**10,893**	**11,165**	**11,444**	**11,730**	**12,024**	**12,324**	**12,632**	**12,948**
GROSS INCOME	**868,536**	**890,249**	**912,506**	**935,318**	**958,701**	**982,669**	**1,007,235**	**1,032,416**	**1,058,227**	**1,084,682**
Vacancy Rate : Market	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	43,427	44,512	45,625	46,766	47,935	49,133	50,362	51,621	52,911	54,234
EFFECTIVE GROSS INCOME	**825,109**	**845,737**	**866,880**	**888,552**	**910,766**	**933,535**	**956,874**	**980,796**	**1,005,315**	**1,030,448**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	365,200	379,808	395,000	410,800	427,232	444,322	462,095	480,578	499,801	519,793
Replacement Reserve	55,160	55,160	55,160	55,160	55,160	57,918	57,918	57,918	57,918	57,918
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	2,000	2,040	2,081	2,122	2,165	2,208	2,252	2,297	2,343	2,390
TOTAL EXPENSES	**422,360**	**437,008**	**452,241**	**468,083**	**484,557**	**504,448**	**522,265**	**540,794**	**560,063**	**580,102**
NET OPERATING INCOME	**402,749**	**408,729**	**414,639**	**420,470**	**426,209**	**429,088**	**434,609**	**440,002**	**445,253**	**450,347**
DEBT SERVICE										
CalHFA - 1st Mortgage	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490
CASH FLOW after debt service	**64,260**	**70,239**	**76,150**	**81,980**	**87,719**	**90,598**	**96,119**	**101,512**	**106,763**	**111,857**
DEBT COVERAGE RATIO	**1.19**	**1.21**	**1.22**	**1.24**	**1.26**	**1.27**	**1.28**	**1.30**	**1.32**	**1.33**
MHP Payment	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**
DEBT COVERAGE RATIO WITH MHI	**1.10**	**1.12**	**1.13**	**1.15**	**1.16**	**1.17**	**1.19**	**1.20**	**1.22**	**1.23**

Cash Flow

RENTAL INCOME	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Market Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Market Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	1,098,528	1,125,991	1,154,141	1,182,994	1,212,569	1,242,883	1,273,955	1,305,804	1,338,449	1,371,910
TOTAL RENTAL INCOME	**1,098,528**	**1,125,991**	**1,154,141**	**1,182,994**	**1,212,569**	**1,242,883**	**1,273,955**	**1,305,804**	**1,338,449**	**1,371,910**
OTHER INCOME										
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Laundry	13,272	13,604	13,944	14,292	14,650	15,016	15,391	15,776	16,171	16,575
Other Income	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	**13,272**	**13,604**	**13,944**	**14,292**	**14,650**	**15,016**	**15,391**	**15,776**	**16,171**	**16,575**
GROSS INCOME	**1,111,800**	**1,139,594**	**1,168,084**	**1,197,286**	**1,227,219**	**1,257,899**	**1,289,347**	**1,321,580**	**1,354,620**	**1,388,485**
Vacancy Rate : Market	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	55,590	56,980	58,404	59,864	61,361	62,895	64,467	66,079	67,731	69,424
EFFECTIVE GROSS INCOME	**1,056,210**	**1,082,615**	**1,109,680**	**1,137,422**	**1,165,858**	**1,195,004**	**1,224,879**	**1,255,501**	**1,286,889**	**1,319,061**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	540,585	562,209	584,697	608,085	632,408	657,705	684,013	711,373	739,828	769,421
Replacement Reserve	60,814	60,814	60,814	60,814	60,814	63,855	63,855	63,855	63,855	63,855
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	2,438	2,487	2,536	2,587	2,639	2,692	2,746	2,800	2,856	2,914
TOTAL EXPENSES	**603,837**	**625,509**	**648,047**	**671,486**	**695,861**	**724,251**	**750,613**	**778,028**	**806,539**	**836,190**
NET OPERATING INCOME	**452,372**	**457,106**	**461,633**	**465,936**	**469,997**	**470,753**	**474,266**	**477,473**	**480,349**	**482,871**
DEBT SERVICE										
CalHFA - 1st Mortgage	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490
CASH FLOW after debt service	**113,883**	**118,616**	**123,143**	**127,447**	**131,507**	**132,264**	**135,777**	**138,983**	**141,860**	**144,382**
DEBT COVERAGE RATIO	**1.34**	**1.35**	**1.36**	**1.38**	**1.39**	**1.39**	**1.40**	**1.41**	**1.42**	**1.43**
MHP Payment	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**
DEBT COVERAGE RATIO WITH MHI	**1.24**	**1.25**	**1.26**	**1.27**	**1.28**	**1.29**	**1.30**	**1.30**	**1.31**	**1.32**

Cash Flow

RENTAL INCOME	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
Market Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Market Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	1,406,208	1,441,363	1,477,397	1,514,332	1,552,191	1,590,995	1,630,770	1,671,540	1,713,328	1,756,161
TOTAL RENTAL INCOME	**1,406,208**	**1,441,363**	**1,477,397**	**1,514,332**	**1,552,191**	**1,590,995**	**1,630,770**	**1,671,540**	**1,713,328**	**1,756,161**
OTHER INCOME										
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Laundry	16,989	17,414	17,849	18,295	18,753	19,222	19,702	20,195	20,700	21,217
Other Income	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	**16,989**	**17,414**	**17,849**	**18,295**	**18,753**	**19,222**	**19,702**	**20,195**	**20,700**	**21,217**
GROSS INCOME	**1,423,197**	**1,458,777**	**1,495,247**	**1,532,628**	**1,570,944**	**1,610,217**	**1,650,473**	**1,691,734**	**1,734,028**	**1,777,378**
Vacancy Rate : Market	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	71,160	72,939	74,762	76,631	78,547	80,511	82,524	84,587	86,701	88,869
EFFECTIVE GROSS INCOME	**1,352,038**	**1,385,838**	**1,420,484**	**1,455,997**	**1,492,396**	**1,529,706**	**1,567,949**	**1,607,148**	**1,647,326**	**1,688,510**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	800,198	832,206	865,494	900,114	936,119	973,563	1,012,506	1,053,006	1,095,126	1,138,932
Replacement Reserve	67,047	67,047	67,047	67,047	67,047	70,400	70,400	70,400	70,400	70,400
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	2,972	3,031	3,092	3,154	3,217	3,281	3,347	3,414	3,482	3,552
TOTAL EXPENSES	**897,258**	**930,002**	**964,043**	**999,435**	**1,036,231**	**1,077,838**	**1,117,611**	**1,158,963**	**1,201,955**	**1,246,653**
NET OPERATING INCOME	**454,779**	**455,837**	**456,441**	**456,561**	**456,166**	**451,868**	**450,338**	**448,185**	**445,372**	**441,856**
DEBT SERVICE										
CalHFA - 1st Mortgage	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490	338,490
CASH FLOW after debt service	**116,290**	**117,347**	**117,952**	**118,072**	**117,676**	**113,378**	**111,848**	**109,696**	**106,882**	**103,367**
DEBT COVERAGE RATIO	**1.34**	**1.35**	**1.35**	**1.35**	**1.35**	**1.33**	**1.33**	**1.32**	**1.32**	**1.31**
MHP Payment	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**	**27,609**
DEBT COVERAGE RATIO WITH MHI	**1.24**	**1.25**	**1.25**	**1.25**	**1.25**	**1.23**	**1.23**	**1.22**	**1.22**	**1.21**

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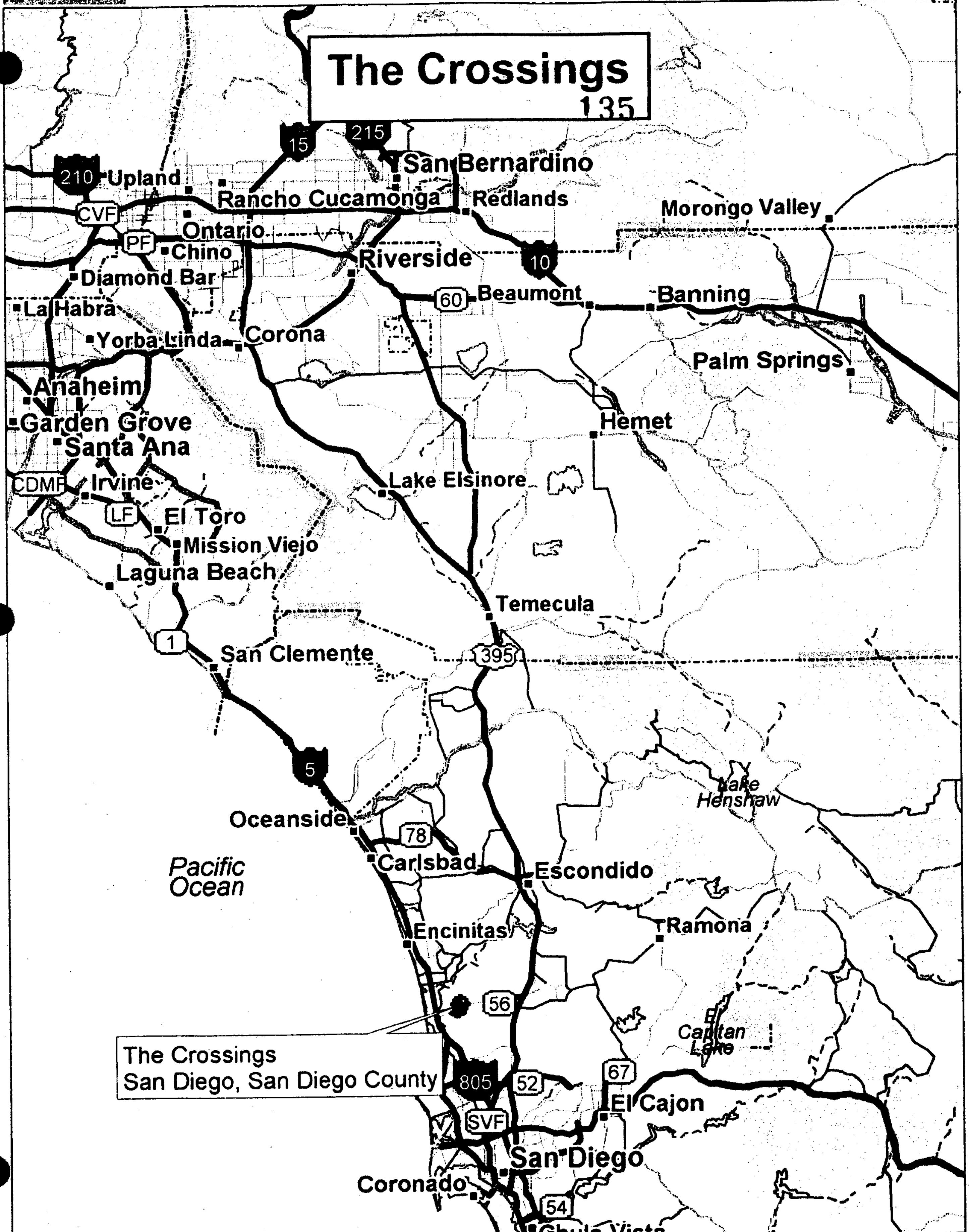

Scale 1 : 800,000

1" = 12.6 mi

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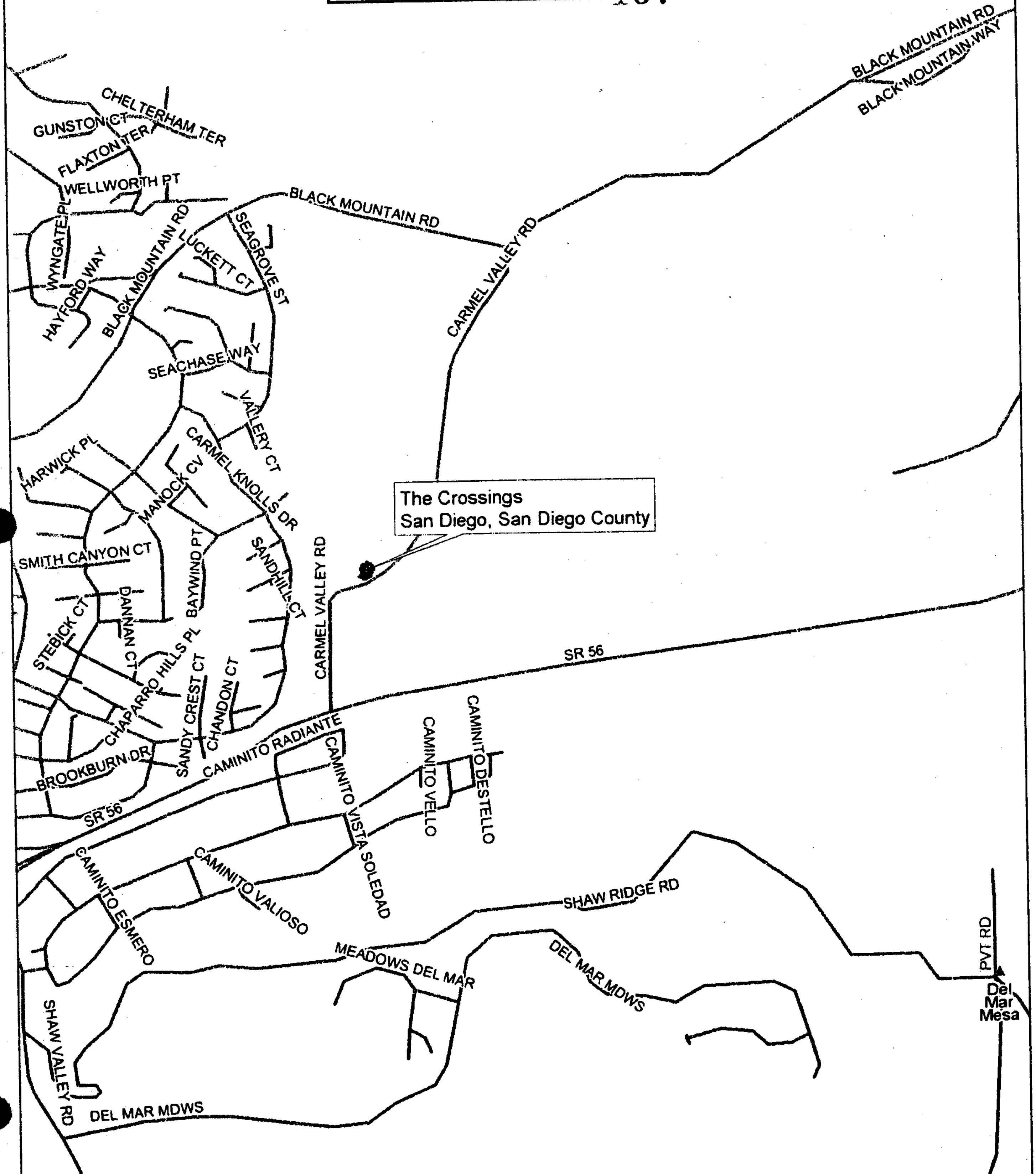
The Crossings

137



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1" = 1330 ft

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RESOLUTION 04-15

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of CIC Crossings, L.P., a California limited partnership (the "Borrower"), seeking a loan commitment under the Agency's Tax-Exempt Loan Program in the mortgage amounts described herein, the proceeds of which are to be used to provide construction and permanent mortgage loans on a 108-unit multifamily housing development located in the City of San Diego to be known as The Crossings (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which has prepared its report dated June 22, 2004 (the "Staff Report") recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on June 24, 2004, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

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

NOW, THEREFORE, BE IT RESOLVED by the Board:

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to his/her recommended terms and conditions, including but not limited to those set forth in the CalHFA Staff Report, in relation to the Development described above and as follows:

PROJECT NUMBER	DEVELOPMENT NAME/ LOCALITY	NUMBER OF UNITS	MORTGAGE AMOUNT
04-006-C/S	The Crossings San Diego/San Diego	108	
		Construction First Mortgage:	$14,160,000
		Permanent First Mortgage:	$ 4,860,000

2. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to increase the mortgage amount so stated in this resolution by an amount not to exceed seven percent (7%) without further Board approval.

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

I hereby certify that this is a true and correct copy of Resolution 04-15 adopted at a duly constituted meeting of the Board of the Agency held on July 8, 2004, at Sacramento, California.

ATTEST: ______________________
Secretary

CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Dublin Transit Center
Dublin, Alameda County, CA
CalHFA # 04-002-C/N

SUMMARY

This is a final commitment request for a construction loan in the amount of Twenty-three Million Four Hundred Twenty Thousand Dollars ($23,420,000), and a tax-exempt, first mortgage loan in the amount of Six Million Two Hundred Thousand Dollars ($6,200,000). Security for the loans will be a newly constructed, 112 unit family apartment community owned by Dublin Transit Site A-2, a limited partnership with an affiliate of EAH Inc. as the general partner.

The project will be located on a 2-acre lot in the City of Dublin at the corners of Dublin and DeMarcus Boulevards. This project is part of the overall 91-acre Planned Development of the Dublin Transit Center and is subject to the City of Dublin's Inclusionary Zoning requirements. The proposed development will consist of a four-story building with an on-grade enclosed garage and an interior courtyard. It is located a block from the East Dublin/Pleasanton BART station.

LOAN TERMS

Construction

First Mortgage	$23,420,000
Interest Rate:	variable
Term:	22 Months, interest only
Financing:	$19,315,000 Tax-exempt
	$ 4,105,000 Taxable

CalHFA construction financing is subject to the assignment by the borrower of tax credit equity and all rights under non-CalHFA financing commitments.

Permanent

First Mortgage	$6,200,000
Interest Rate:	5.70%
Term:	30 year fixed, fully amortized
Financing:	Tax-exempt

OTHER FINANCING

Source	Type	Loan Amount	Term	Interest Rate	Repayment
MHP	Loan	$7,540,672	55	3.00%	Residual Receipts
MHP-NSSS	Loan	$254,611	55	3.00%	Residual Receipts
Alameda County	Loan	$4,000,000	55	3.00%	Residual Receipts
Alameda County - Land	Grant	$3,120,000			

EAH was selected by the owner of the overall 91-acre Planned Development, the Alameda County Surplus Property Authority (SPA) to develop affordable housing on this 2-acre site, which is Site A2 on the development plan. EAH has entered into a Purchase and Sale Agreement with the SPA. A to-be-formed Limited Partnership will take fee title of the ownership of the land at the close of all construction financing.

The City of Dublin's Inclusionary Zoning requirements state that 12.5% of all newly constructed units need to be affordable units at very low (30% of the units), low (20% of the units),and moderate (50% of the units),income levels. Half of the Inclusionary Zoning requirements for the 91 acre Transit Development Center are being met by this project, which will have 100% of its units restricted to incomes at 50% and 60% of Area Median Income.

PROJECT DESCRIPTION

Project Location

The proposed 112-unit affordable family rental housing development is new construction on a vacant 2-acre lot in the City of Dublin. This project is part of the overall 91-acre Planned Development of the Dublin Transit Center next to the East Dublin/Pleasanton BART station.

Currently an interim BART station parking lot is directly to the south of the subject. Vacant land lies to the east across DeMarcus Boulevard. To the west of the property, separated by the Iron Horse Trail, is a commercial/industrial zone, dominated by lumber yards, auto repair and automobile sales lots. Iron Horse Trail is a paved path used by cyclists and hikers; development of the Trail adjacent to and south of the project is planned for the future.

To the north of Dublin Boulevard is the 2,700+ acre Camp Parks U.S. Army Reserve Training Facility. While the main entrance to Camp Parks was recently relocated to the DeMarcus Boulevard/Dublin Boulevard intersection, most of the facility's structures are located well north of Dublin Boulevard, with the area directly adjacent to Dublin Boulevard currently vacant. The Army is considering selling portions of these vacant areas for private development in exchange for improvements to the Camp Parks facility.

Future land uses surrounding the subject site include planned high-density residential development to the east, west and south. The 91 acre Dublin Transit Center project includes future development of 1,500 residential units on Sites A, B and C, two million square feet of campus office space on sites D and E, and 70,000 square feet of retail uses. Open space will include a 12.2 acre park located on site F and a one acre Village Green will be located between sites B and C. The project area also includes 8.65 acres to be occupied by a BART station parking garage, a PG&E substation and BART surface parking. Sybase recently constructed two six-story buildings on Site 15-B that serves as the company's new headquarters. In addition, the City recently approved the development of the major furniture store outlet, Ikea, at Site 16-A, at the corner of Dublin Boulevard and Hacienda Drive.

Outside the proposed development area, the neighborhood is built up with office buildings and newer shopping plazas which include Safeway, Target, Home Expo, and Babies R Us as well as some auto dealerships, parts sales and service facilities. The following amenities are within one mile from the proposed development: Dublin/Pleasanton BART station, Dougherty Elementary School, Iron Horse Trail, and the Dublin Sports Grounds. Additional amenities within two miles from the proposed development include: Wells Middle School, Dublin Public Library, Albertson's, Dublin Generics, Inc., a local pharmacy, Dublin Swim Center, Emerald Glen Park and the Tri-Valley One Stop Career Center. More family-serving retail and mixed-use developments will be built along with the rest of the Transit Center developments.

Site

The 1.99 acre vacant site is located at the southwest corner of Dublin and DeMarcus Boulevards. The site is level and is rectangular in shape with 372 feet of frontage along Dublin Boulevard and 189.5 feet of frontage along DeMarcus Boulevard. Two new streets will be built to surround the property along the west and south borders.

Improvements

The proposed development consists of a four-story Mediterranean style building with an on-grade enclosed garage of 160 parking stalls. The three residential stories will be wood-framed, and the exterior will be stucco with color plaster on the street-fronting walls. The walls facing the interior courtyard will have hardi-plank siding. The walls on the ground floor garage will be structural shear walls. The roof will be pitched with asphalt shingles and eyebrow roofs will be sheet metal painted to look like oxidized copper. Two sides of the building have units on the ground floor fronting the streets with entrances directly to the sidewalks, creating more of a sense of a community. Pedestrian circulation along DeMarcus Boulevard and the one-way private access road will be encouraged with step-up stoops to access the ground level units. The 112 residential units will include a mixture of flats and townhomes each with individual heat and air-conditioning.

The project will have full hip roofs and articulation of the balconies. Architectural details will be enhanced at the street level by the patio gates to the ground floor units. The main entry plaza will be located at the corner of the building. A fountain and a grandiose staircase lead up to the podium deck where the leasing office, community center, laundry facilities and interior court/garden will be located. The courtyard will be landscaped with various types of native plants, small trees, trellises, sitting areas, and two tot lots with play structures.

The project will provide computer and internet classes, an after-school program, financial training, and other social services as needed. A half-time service coordinator, on-site property manager, and/or other local service provider groups will make these services available to the tenants free of charge. Other project amenities include the following:

- Patio Space on All Units
- Individual HVAC In All Units
- European Kitchen Cabinets and Gas Stove Range
- 160 Enclosed Ground Level Parking Spaces, 4 Handicap Parking Spaces Included
- 8 Guest Parking Spaces on a Private Street
- Entry Plaza and Landscaped Interior Court at Deck Level
- BBQ Area, 2 Tot Lots
- Computer Center, Community Center with kitchen
- 2 Laundry Rooms, and 2 Elevators
- Electronic Security and Monitoring System of All Accesses to the Building
- Wired for Internet Use and other Cable Services
- Energy Star Rated refrigerator and dishwasher in all units
- Parking structure entrance from Street 'A', and service/freight access from the one-way private access road.
- Proximity of the BART station and multiple commute options

Unit Mix

No. of Units	No. of Bedrooms	No. of Bathrooms	Unit Square Footage
24	1	1	593
27	2	1	888
26	2	1.5	1,017 – 1,149
35	3	2	1,146 – 1,208

SPECIAL NEEDS SERVICES

The proposed project has allocated four one-bedroom units and one two-bedroom unit, for a total of 5 units for the developmentally disabled population. EAH is working with two local service providers who are designated to serve this special needs population to provide them with assistance for independent living. Service providers will have both on-site and off-site services that would include in-home personal skills training, use of public transit, money management, health services, nutritional counseling, and other referral services.

MARKET

Market Overview

In the market study completed by Laurin and Associates the Dublin Market Area is defined as the City of Dublin and a part of northern Pleasanton that borders the City of Dublin. The current population of the market area is 42,764, compared to the population of the City of Dublin which is 38,330 as of 2004. In the Dublin Market Area there are currently 14,778 households, 39.4% of which rent, and 60.6% of which own their homes.

The largest employment sectors in the County of Alameda and in the Dublin Market Area are services, trade and manufacturing. Major employers in Dublin include Sybase Corporation with 1,000 employees, Pacific Bell with over 600 employees and MicroDental Labratories with 550 employees. The unemployment rate in the County increased from 3.0% in 2000, to 6.8% in 2003, and decreased to 6.2% in 2004. The unemployment rate in Dublin increased from 1.7% in 2000, to 4.0% in 2003, and decreased to 3.3% in 2004.

Housing Supply and Demand

The market study states that there are no vacancies and the wait list is long at the one 57 unit affordable housing project in Dublin. In addition to the Dublin Transit Center, there is one other proposed affordable multifamily development, of 153 units, in the planning stages in Dublin. The market study estimated that the project would need to capture from 4.2% to 14.5% of the demand from a) existing households and b) additional demand generated from turnover and additional households created through 2006; depending on unit type and rent level.

PROJECT FEASIBILITY

Rent Differentials (Market versus Restricted)

Unit Type	Subject Rents	Market Rate	$ Difference	% of Market
One Bedroom		**$1,050**		
20%	$270		$780	26%
30%	$425		$625	40%
35%	$503		$547	48%
50%	$736		$314	70%
55%	$ 813		$237	77%
Two Bedroom		**$1,250**		
30%	$503		$747	40%
35%	$596		$654	48%
50%	$876		$374	70%
55%	$969		$281	78%
60%	$1,062		$188	85%
Three Bedroom		**$1,650**		
30%	$578		$1,072	35%
35%	$686		$964	42%
50%	$1,009		$641	61%
55%	$1,116		$534	68%
60%	$1,224		$426	74%

Estimated Lease-up Period

According to the appraisal completed by Sturgis-Bright Associates the project is expected to absorb 25 units each month, with stabilization expected four and a half months after construction completion. A three month rent-up reserve of $125,000 has been set aside and is sufficient to cover the estimated four and a half month lease-up period. The permanent loan is expected to close four months after lease up begins.

OCCUPANCY RESTRICTIONS

CalHFA	20% of the units will be restricted at 50% or less of AMI.
City	60% of the units will be restricted at 50% or less of AMI. 40% of the units will be restricted at 60% or less of AMI.
TCAC	100% of the units will be restricted at 60% or less of AMI.
HCD	4% of the units will be restricted at 20% or less of AMI. 16% of the units will be restricted at 30% or less of AMI. 18% of the units will be restricted at 35% or less of AMI. 23% of the units will be restricted at 50% or less of AMI. 23% of the units will be restricted at 55% or less of AMI. 17% of the units will be restricted at 60% or less of AMI.

ENVIRONMENTAL

CalHFA reviewed a Phase I Environmental Assessment Report and a Soil Sampling Report, both completed by ACC Environmental Consultants in December 2003 and January 2004 respectively. The Phase I Report revealed evidence of recognized environmental conditions at the subject property. During review of aerial photographs aboveground propane tanks and two buildings believed to be electricity generator buildings were identified. Also during review of aerial photographs, railroad spurs adjacent to the former aboveground propane tanks were identified. During the site reconnaissance, ACC observed one pad-mounted electrical transformer. In addition, there are several sites with documented releases of hazardous substances and/or petroleum products with one mile of the subject property.

ACC concluded the following: 1) Because the propane tanks were aboveground and because liquid propane is very volatile, any leaks would have quickly dissipated. Therefore, the potential to impact the environment is believed to be low. 2) Historically railroads have used herbicides and oils, including oils containing polychlorinated biphenyls (PCBs), for vegetation and dust control. ACC concludes that the former railroad spurs have potential to have impacted the environment. 3) ACC did not observe any evidence of leaks associated with the pad mounted transformer or any evidence that it had an impact on the environment. Based on their observations and the age of the transformer, the potential to impact the environment is considered low. 4) There is not documented evidence that constituent plumes originating from off-site sources have migrated to the subject property.

ACC analyzed 16 soil samples for organochlorine pesticides, TEPH, TPHg, BTEX, HVOC's LUFT metals, arsenic and total lead in its Soil Sampling Report. No detectable organochlorine pesticides, TPHg,, BTEX, or HVOC's were reported in the soil samples analyzed. Minor concentrations of 5 LUFT metals and arsenic were reported in concentrations that are indicative of naturally occurring background levels, and minor concentrations of TEPH were reported. ACC concludes that there is no evidence of soil impact related to the historic site use and that no additional sampling or subsurface investigation is warranted. ACC also states that any excess soil generated at the site will meet acceptance criteria for unrestricted residential use and can either be recycled, used for clean fill, or disposed at a Class III landfill.

CalHFA is requesting a review of the above environmental reports by URS, its environmental consultant, and is requesting recommendations concerning any additional testing or remediation that should be conducted. A condition of the final commitment will be satisfactory review and approval of these documents and any additional reports or tests required as a result of the URS review and recommendations. If additional remedial action is recommended, the work will be required to be completed.

A Geotechnical Investigation completed in April 2004 by Robert Y. Chew Geotechnical, Inc. states that the development is feasible from a geotechnical standpoint, provided the recommendations presented in the report are incorporated into the design and construction of the project. Chew Geotechnical, Inc. made numerous recommendations regarding seismic design, site preparation and grading, surface drainage, foundations, concrete slab-on-grade construction, and underground utility and service lines and in their report.

The Borrower has requested an earthquake insurance waiver, and a seismic evaluation is underway. Any design modifications required as a condition of the earthquake insurance waiver shall be incorporated in the final plans and specifications approved by CalHFA. If the earthquake waiver is denied, the CalHFA permanent loan amount may decrease so that the earthquake insurance premium can be included in the approved operating budget.

DEVELOPMENT TEAM

Borrower

<u>EAH, Inc.</u>

EAH, Inc. (formerly Ecumenical Association for Housing) is a nonprofit corporation that has been developing, managing and advocating for quality affordable housing in Marin County since 1968. EAH has developed over 4,500 units of affordable housing in 50 projects, ranging from rural, low-density complexes to the 32 story Kukui Tower in Honolulu. EAH has approximately 1,700 units under construction or in the planning, acquisition or rehabilitation stages.

Construction Security required from the borrower is shown as a letter of credit. Subject to review and approval of the financial information provided by the borrower and compliance with the Agency's underwriting standards, staff may approve a corporate completion and repayment guarantee from the general partner's parent corporation, in lieu of a letter of credit.

Management Agent

EAH Property Management

EAH's Property Management Division manages over 6,000 units of affordable housing in 59 complexes located throughout the Bay Area, Central Valley and Honolulu, Hawaii, with regional offices located in San Rafael, San Jose, Fresno, and Honolulu. EAH's Property Management Division is a full services property and asset management firm.

Architect

KTGY Group, Inc.

KTGY Group, Inc., was founded in 1991. KTGY provides planning and architectural design services for residential communities and related specialty projects throughout the western United States.

Contractor

Segue Construction Inc.

Segue, founded in 1992, is a service-oriented general contractor with an emphasis on construction of affordable multi-family apartment dwellings for Bay Area non-profit housing developers.

Segue is posting a 100% performance and payment bond for this project, at 1% of the contract price. Segue has the ability to bond up to forty million per job with an aggregate up to one hundred million; approximately 70% of their work is bonded. Other CalHFA projects constructed by Segue include Capital Avenue Apartments for JSM Enterprises, and Monte Vista Apartments and Grayson Creek Apartments for BRIDGE Housing.

Segue is the contractor for two CalHFA projects: Oak Court in Palo Alto which is currently under construction, and Bayport in Alameda which has not yet started construction.

Project Summary

Date: 22-Jun-04 149

Project Profile:

Project :	Dublin Transit Center			
Location:	Dublin Transit Center	**Appraisal:**		
	Dublin	Cap Rate:	6.50%	
County:	Alameda	Final Value:	$7,900,000	
Borrower:	EAH	Construction:	$24,800,000	
GP:	EAH			
GP:				
LP:	not yet determined	**LTC/LTV:**	**Construction**	**Permanent**
Program:	Tax-Exempt	Loan/Cost	74%	18%
CalHFA # :	04-002-C/N	Loan/Value	94%	78%

Project Description:

Units	112
Handicap Units	4
Bldge Type	New Const.
Buildings	1
Stories	4
Gross Sq Ft	0
Land Sq Ft	86,684
Units/Acre	56
Total Parking	168
Covered Parking	160

Financing Summary:

			Rate	Term
CalHFA First Mortgage	$6,200,000	$55,357	5.70%	30
HCD - MHP	$7,540,672	$67,327	3.00%	55
Alameda County	$4,000,000	$35,714	3.00%	55
Alameda County Land Donation	$3,120,000	$27,857		
HCD - MHP- NSSS	$254,611	$2,273	3.00%	55
Borrower Contribution	$539,484	$4,817		-
Deferred Developer Equity	$200,000	$1,786		-
Tax Credit Equity	$11,847,473	$105,781		
CalHFA Construction Loan	$23,420,000	$209,107	3.00%	22 months
Tax-exempt Portion	$19,315,000	$172,455		
Taxable Portion	$4,105,000	$36,652	0.00%	-

Unit Mix:

Type	20% AMI		30% AMI		35% AMI	
	number	rent	number	rent	number	rent
1 bedroom	4	270	4	425	5	503
2 bedroom			9	503	9	596
3 bedroom			5	578	6	686
4 bedroom						
subtotal	**4**		**18**		**20**	

Type	50% AMI		55% AMI		60% AMI		Manager		Total
	number	rent	number	rent	number	rent	number	rent	
1 bedroom	6	736	5	813					24
2 bedroom	12	876	11	969	11	1062	1	0	53
3 bedroom	7	1009	9	1116	8	1224			35
4 bedroom									
subtotal	**25**		**25**		**19**		**1**		**112**

Fees, Escrows, and Reserves:

Permanent		**Basis of Requirements**		**Amount**	**Security**
Fees	CalHFA Permanent Loan	0.50%	Total Loans	$31,000	Cash
Escrows	Construction Defect	2.50%	of Hard Costs	$436,366	Letter of Credit
Reserves	Operating Expense Reserve	10.00%	of Gross Income	$109,316	Letter of credit
	Initial Deposit to Replacement Re	0.00%	of Gross Income	$0	Cash
	Annual Replacement Reserve De	$350	per unit	$39,200	Operations

Construction		**Basis of Requirements**		**Amount**	**Security**
Fees	CalHFA Construction Loan	1.00%	of Total Loans	$234,200	Cash
	Inspection fee	$1,500	x months of construction	$33,000	Cash
Guarantees	Bond Origination Guaranty	1.00%	of tax exempt portion	$193,150	Not required
	Completion Guaranty--Borrower	10.00%	of construction contract	$1,961,737	Letter of Credit or Cash Escrow
	Performance Bond--Contractor	100.00%	of construction contract	$19,617,372	Bond
	Payment Bond--Contractor	100.00%	of construction contract	$19,617,372	Bond
Reserves	Rent-up Reserve	0.25	Year Operating Expense	$125,004	Cash

SOURCES AND USES WORKSHEET				Dublin Transit Center
SOURCES:				
	Permanent Dollars	Construction	Percent of Total Perm Sources	Interest Rate
CalHFA First Mortgage	6,200,000		18.4%	5.70%
CalHFA Construction Loan		23,420,000		3.00%
HCD - MHP	7,540,672	-	22.4%	3.00%
Alameda County	4,000,000	4,000,000	11.9%	3.00%
Alameda County Land Donation	3,120,000	3,120,000	9.3%	
HCD - MHP- NSSS	254,611	-	0.8%	3.00%
Borrower Contribution	539,484	-	1.6%	
Deferred Developer Equity	200,000	-	0.6%	
Tax Credit Equity	11,847,473	1,200,000	35.2%	
Total Sources	**33,702,240**	**31,740,000**	100.0%	
(Gap)/Surplus	0	0		

USES:	Total Cost	Construction Budget	per unit	pct of total
ACQUISITION				
Total Land Cost or Value	3,120,000	3,120,000	27,857	9%
Legal/Broker Fees			-	0%
Demolition	-		-	0%
Off-Site Improvements	250,000	250,000	2,232	1%
Existing Improvements Value	-		-	0%
Other	-		-	0%
Total Acquisition Cost	**3,370,000**	**3,370,000**	30,089	10%
NEW CONSTRUCTION				
Site Work	1,091,788	1,091,788	9,748	3%
Structures	16,362,843	16,362,843	146,097	49%
General Requirements	762,774	762,774	6,810	2%
Contractor Overhead	206,283	206,283	1,842	1%
Contractor Profit	943,684	943,684	8,426	3%
Other	-	-	-	0%
Total New Const. Costs	**19,367,372**	**19,367,372**	172,923	57%
ARCHITECTURAL FEES				
Design	624,470	624,470	5,576	2%
Supervision	186,530	186,530	1,665	1%
Total Architectural Costs	**811,000**	**811,000**	7,241	2%
	-		-	0%
SURVEY & ENGINEERING	**100,000**	**100,000**	893	0%
CONST. INTEREST & FEES				
Const. Loan Interest	1,100,000	1,100,000	9,821	3%
Construction Loan Fee	234,200	234,200	2,091	1%
Legal	10,000	10,000	89	0%
Bond Premium	200,000	200,000	1,786	1%
Taxes	20,000	20,000	179	0%
Insurance	150,000	150,000	1,339	0%
Title and Recording	30,000	30,000	268	0%
Construction Inspection Fee	33,000	33,000	295	0%
Total Const. Interest & Fees	**1,777,200**	**1,777,200**	15,868	5%

PERMANENT FINANCING				
Commitment Fee			-	0%
Finance Fee	31,000	31,000	277	0%
Application Fee	500	500	4	0%
Title and Recording	10,000		89	0%
MHP Construction Loan Interest	-	-	-	0%
HAT Bridge Loan	-		-	0%
HUD Environ. Review	-		-	0%
Legal	20,000		179	0%
Total Perm. Financing Costs	**61,500**	**31,500**	549	0%
LEGAL FEES				
Lender Legal Fee			-	0%
Owner Legal	60,000	60,000	536	0%
Other			-	0%
Total Attorney Costs	**60,000**	**60,000**	536	0%
RESERVES				
CalHFA Required Rent-up Reserves	125,004	125,004	1,116	0%
Operating Expense Reserve		-	-	0%
Letter of Credit Costs	38,500	38,500	344	0%
	-	-	-	0%
Total Reserve Costs	**163,504**	**163,504**	1,460	0%
CONTRACT COSTS				
Appraisal	10,000	10,000	89	0%
Market Study	7,500	7,500	67	0%
PNA		-	-	0%
Eq Ins. Waiver/Seismic Review	10,000	10,000	89	0%
Environmental Review	5,000	5,000	45	0%
Total Contract Costs	**32,500**	**32,500**	290	0%
CONTINGENCY				
Hard Cost Contingency	1,432,047	1,432,047	12,786	4%
Soft Cost Contingency	100,000	100,000	893	0%
Total Contingency Costs	**1,532,047**	**1,532,047**	13,679	5%
OTHER				
TCAC App/Alloc/Monitor Fees	61,538	61,538	549	0%
Environmental Audit and Soil Report	60,000	60,000	536	0%
Predevelopment loan int and fees	65,000	65,000	580	0%
Asbestos/Lead-based Paint Report	-	-	-	0%
Permit Processing Fees	200,533	200,533	1,790	1%
Local Impact Fees	3,605,228	3,605,228	32,190	11%
Construction Testing		-	-	0%
Marketing Budget	112,000	112,000	1,000	0%
Furnishings	56,000	56,000	500	0%
Syndication costs	85,000	85,000	759	0%
Total Other Costs	**4,245,299**	**4,245,299**	37,904	13%
PROJECT COSTS	**31,520,422**	**31,490,422**	281,432	94%
DEVELOPER COSTS				
Developer Overhead/Profit	2,181,818	249,578	19,481	6%
Consultant/Processing Agent	-		-	0%
Project Administration	-		-	0%
Total Developer Costs	**2,181,818**	**249,578**	19,481	6%
TOTAL PROJECT COST	**33,702,240**	**31,740,000**	300,913	100%

Annual Operating Budget		Dublin Transit Center
		$ per unit
INCOME:		
Total Rental Income	1,085,100	9,688
Laundry	8,064	72
Other Income	0	-
Commercial/Retail	0	-
Gross Potential Income (GPI)	**1,093,164**	**9,760**
Less:		
Vacancy Loss	54,658	488
Total Net Revenue	**1,038,506**	**9,272**
EXPENSES:		
Payroll	175,248	1,565
Administrative	118,580	1,059
Utilities	55,323	494
Operating and Maintenance	90,426	807
Insurance and Business Taxes	55,440	495
Taxes and Assessments	5,000	45
Reserve for Replacement Deposits	39,200	350
Subtotal Operating Expenses	**539,217**	**4,814**
Financial Expenses		
Mortgage Payments (1st loan)	431,818	3,856
Total Financial	**431,818**	**3,856**
Total Project Expenses	**971,035**	**8,670**

Cash Flow — Dublin Transit Center — CalHFA Development Number: 04-002-C/N

RENTAL INCOME	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Market Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Market Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	1,085,100	1,112,228	1,140,033	1,168,534	1,197,747	1,227,691	1,258,383	1,289,843	1,322,089	1,355,141
TOTAL RENTAL INCOME	**1,085,100**	**1,112,228**	**1,140,033**	**1,168,534**	**1,197,747**	**1,227,691**	**1,258,383**	**1,289,843**	**1,322,089**	**1,355,141**
OTHER INCOME										
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Laundry	8,064	8,266	8,472	8,684	8,901	9,124	9,352	9,586	9,825	10,071
Other Income	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	**8,064**	**8,266**	**8,472**	**8,684**	**8,901**	**9,124**	**9,352**	**9,586**	**9,825**	**10,071**
GROSS INCOME	**1,093,164**	**1,120,493**	**1,148,505**	**1,177,218**	**1,206,649**	**1,236,815**	**1,267,735**	**1,299,428**	**1,331,914**	**1,365,212**
Vacancy Rate : Market	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	54,658	56,025	57,425	58,861	60,332	61,841	63,387	64,971	66,596	68,261
EFFECTIVE GROSS INCOME	**1,038,506**	**1,064,468**	**1,091,080**	**1,118,357**	**1,146,316**	**1,174,974**	**1,204,348**	**1,234,457**	**1,265,318**	**1,296,951**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	495,017	514,818	535,410	556,827	579,100	602,264	626,354	651,409	677,465	704,564
Replacement Reserve	39,200	39,200	39,200	39,200	39,200	41,160	41,160	41,160	41,160	41,160
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	5,000	5,100	5,202	5,306	5,412	5,520	5,631	5,743	5,858	5,975
TOTAL EXPENSES	**539,217**	**559,118**	**579,812**	**601,333**	**623,712**	**648,944**	**673,145**	**698,312**	**724,483**	**751,699**
NET OPERATING INCOME	**499,289**	**505,351**	**511,268**	**517,024**	**522,604**	**526,030**	**531,203**	**536,145**	**540,835**	**545,252**
DEBT SERVICE										
CalHFA - 1st Mortgage	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818
CASH FLOW after debt service	**67,471**	**73,533**	**79,450**	**85,206**	**90,786**	**94,212**	**99,385**	**104,327**	**109,017**	**113,435**
DEBT COVERAGE RATIO	**1.16**	**1.17**	**1.18**	**1.20**	**1.21**	**1.22**	**1.23**	**1.24**	**1.25**	**1.26**
MHP Payment	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**
DEBT COVERAGE RATIO WITH MHF	**1.08**	**1.09**	**1.10**	**1.12**	**1.13**	**1.13**	**1.15**	**1.16**	**1.17**	**1.18**

Cash Flow

RENTAL INCOME	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Market Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Market Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	1,389,020	1,423,745	1,459,339	1,495,822	1,533,218	1,571,548	1,610,837	1,651,108	1,692,386	1,734,695
TOTAL RENTAL INCOME	**1,389,020**	**1,423,745**	**1,459,339**	**1,495,822**	**1,533,218**	**1,571,548**	**1,610,837**	**1,651,108**	**1,692,386**	**1,734,695**
OTHER INCOME										
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Laundry	10,323	10,581	10,845	11,116	11,394	11,679	11,971	12,270	12,577	12,892
Other Income	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	**10,323**	**10,581**	**10,845**	**11,116**	**11,394**	**11,679**	**11,971**	**12,270**	**12,577**	**12,892**
GROSS INCOME	**1,399,342**	**1,434,326**	**1,470,184**	**1,506,939**	**1,544,612**	**1,583,227**	**1,622,808**	**1,663,378**	**1,704,963**	**1,747,587**
Vacancy Rate : Market	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	69,967	71,716	73,509	75,347	77,231	79,161	81,140	83,169	85,248	87,379
EFFECTIVE GROSS INCOME	**1,329,375**	**1,362,610**	**1,396,675**	**1,431,592**	**1,467,382**	**1,504,066**	**1,541,668**	**1,580,209**	**1,619,715**	**1,660,207**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	732,746	762,056	792,538	824,240	857,209	891,498	927,158	964,244	1,002,814	1,042,926
Replacement Reserve	43,218	43,218	43,218	43,218	43,218	45,379	45,379	45,379	45,379	45,379
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	6,095	6,217	6,341	6,468	6,597	6,729	6,864	7,001	7,141	7,284
TOTAL EXPENSES	**782,059**	**811,491**	**842,097**	**873,926**	**907,025**	**943,606**	**979,400**	**1,016,624**	**1,055,334**	**1,095,589**
NET OPERATING INCOME	**547,316**	**551,119**	**554,577**	**557,666**	**560,357**	**560,460**	**562,267**	**563,585**	**564,381**	**564,618**
DEBT SERVICE										
CalHFA - 1st Mortgage	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818
CASH FLOW after debt service	**115,498**	**119,301**	**122,760**	**125,848**	**128,539**	**128,642**	**130,449**	**131,768**	**132,563**	**132,800**
DEBT COVERAGE RATIO	**1.27**	**1.28**	**1.28**	**1.29**	**1.30**	**1.30**	**1.30**	**1.31**	**1.31**	**1.31**
MHP Payment	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**
DEBT COVERAGE RATIO WITH MHF	**1.18**	**1.19**	**1.20**	**1.20**	**1.21**	**1.21**	**1.21**	**1.22**	**1.22**	**1.22**

Cash Flow

RENTAL INCOME	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
Market Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Market Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	1,778,063	1,822,514	1,868,077	1,914,779	1,962,649	2,011,715	2,062,008	2,113,558	2,166,397	2,220,557
TOTAL RENTAL INCOME	**1,778,063**	**1,822,514**	**1,868,077**	**1,914,779**	**1,962,649**	**2,011,715**	**2,062,008**	**2,113,558**	**2,166,397**	**2,220,557**
OTHER INCOME										
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Laundry	13,214	13,544	13,883	14,230	14,586	14,950	15,324	15,707	16,100	16,502
Other Income	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	**13,214**	**13,544**	**13,883**	**14,230**	**14,586**	**14,950**	**15,324**	**15,707**	**16,100**	**16,502**
GROSS INCOME	**1,791,277**	**1,836,058**	**1,881,960**	**1,929,009**	**1,977,234**	**2,026,665**	**2,077,332**	**2,129,265**	**2,182,496**	**2,237,059**
Vacancy Rate : Market	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	89,564	91,803	94,098	96,450	98,862	101,333	103,867	106,463	109,125	111,853
EFFECTIVE GROSS INCOME	**1,701,713**	**1,744,255**	**1,787,862**	**1,832,558**	**1,878,372**	**1,925,332**	**1,973,465**	**2,022,802**	**2,073,372**	**2,125,206**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	1,084,643	1,128,029	1,173,150	1,220,076	1,268,879	1,319,634	1,372,420	1,427,316	1,484,409	1,543,785
Replacement Reserve	47,648	47,648	47,648	47,648	47,648	50,030	50,030	50,030	50,030	50,030
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	7,430	7,578	7,730	7,884	8,042	8,203	8,367	8,534	8,705	8,879
TOTAL EXPENSES	**1,173,755**	**1,218,140**	**1,264,285**	**1,312,260**	**1,362,137**	**1,416,374**	**1,470,286**	**1,526,337**	**1,584,612**	**1,645,199**
NET OPERATING INCOME	**527,958**	**526,115**	**523,577**	**520,299**	**516,236**	**508,957**	**503,179**	**496,464**	**488,760**	**480,007**
DEBT SERVICE										
CalHFA - 1st Mortgage	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818	431,818
CASH FLOW after debt service	**96,140**	**94,297**	**91,759**	**88,481**	**84,418**	**77,140**	**71,361**	**64,647**	**56,942**	**48,189**
DEBT COVERAGE RATIO	**1.22**	**1.22**	**1.21**	**1.20**	**1.20**	**1.18**	**1.17**	**1.15**	**1.13**	**1.11**
MHP Payment	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**	**31,671**
DEBT COVERAGE RATIO WITH MHF	**1.14**	**1.14**	**1.13**	**1.12**	**1.11**	**1.10**	**1.09**	**1.07**	**1.05**	**1.04**

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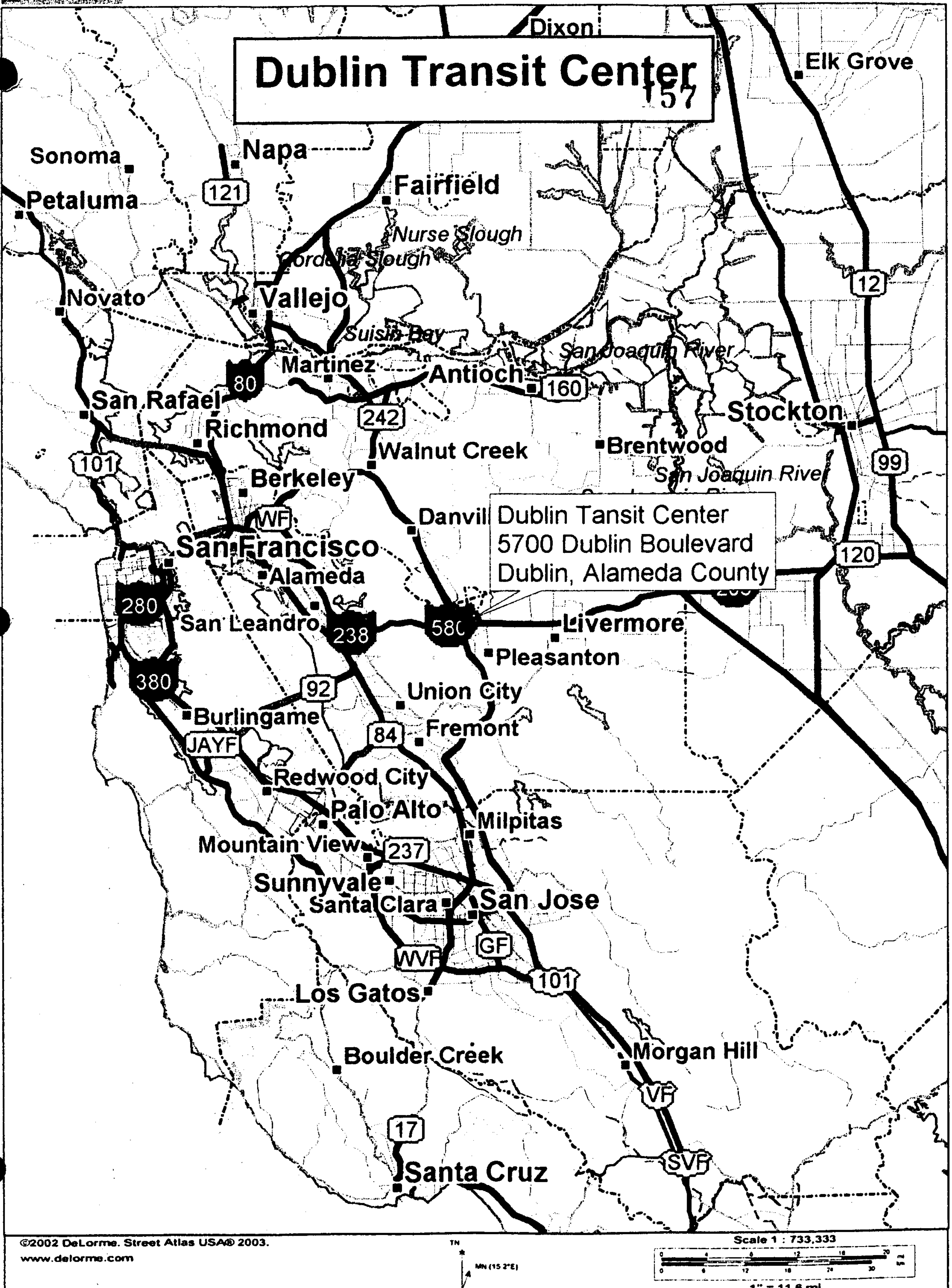
Dublin Transit Center
157
Dublin Tansit Center
5700 Dublin Boulevard
Dublin, Alameda County
Dixon
Elk Grove
Sonoma
Napa
121
Petaluma
Fairfield
Nurse Slough
Cordelia Slough
12
Novato
Vallejo
Suisun Bay
San Joaquin River
Martinez
Antioch
160
80
San Rafael
Richmond
242
Stockton
Walnut Creek
Brentwood
101
99
Berkeley
San Joaquin River
WF
Danvil
San Francisco
120
Alameda
280
580
Livermore
San Leandro
238
Pleasanton
380
92
Union City
Burlingame
84
Fremont
JAYF
Redwood City
Palo Alto
Milpitas
Mountain View
237
Sunnyvale
Santa Clara
San Jose
GF
WVF
101
Los Gatos
Morgan Hill
Boulder Creek
VF
17
SVF
Santa Cruz
Scale 1 : 733,333
1" = 11.6 mi
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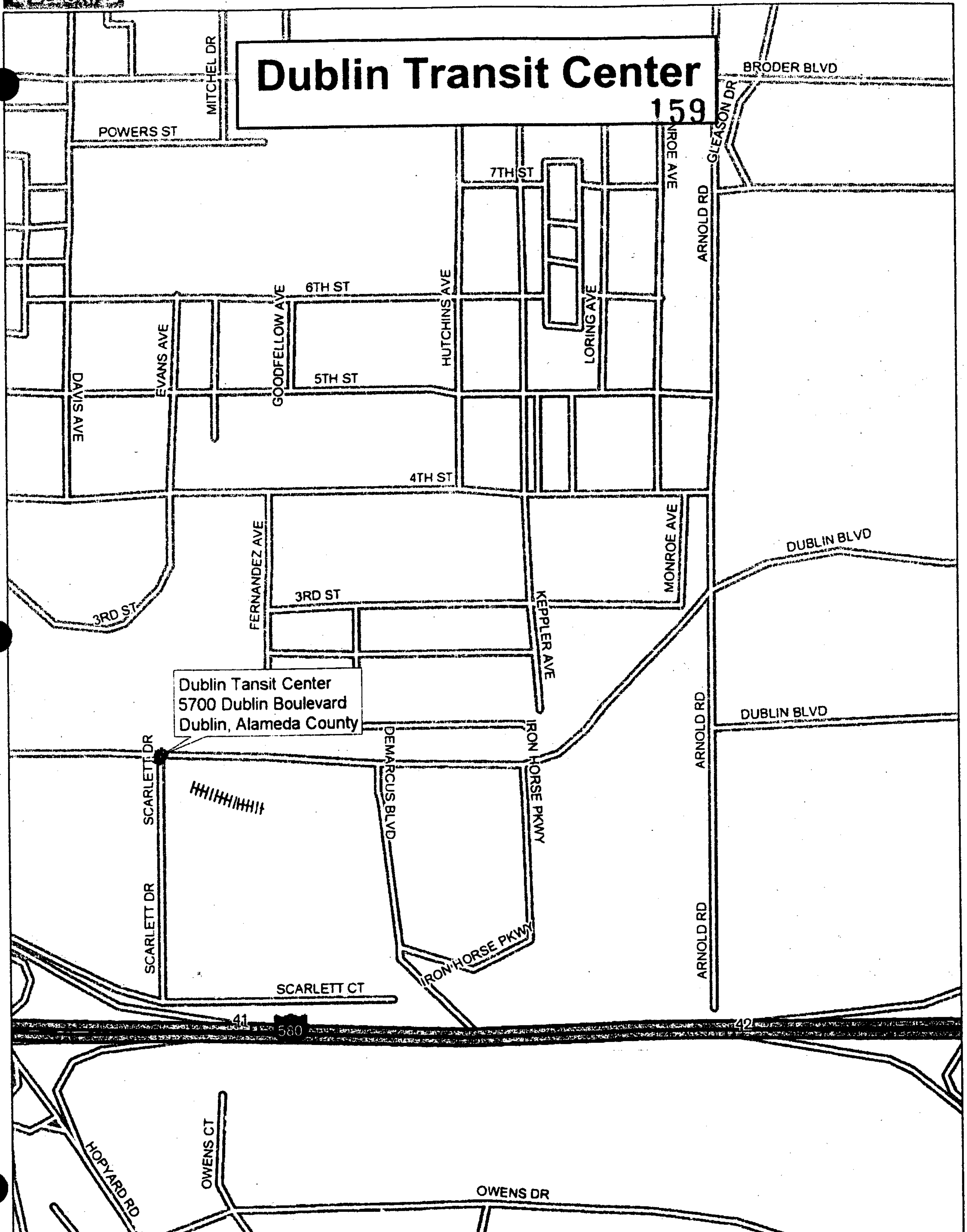
Dublin Transit Center

159



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RESOLUTION 04-16

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application from EAH, Inc., a nonprofit corporation, on behalf of the Dublin Transit Site A2, L.P., a California limited partnership to be formed (the "Borrower"), seeking a loan commitment under the Agency's Tax-Exempt Loan Program in the mortgage amounts described herein, the proceeds of which are to be used to provide construction and permanent mortgage loans on a 112-unit multifamily housing development located in the City of Dublin to be known as Dublin Transit Center (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which has prepared its report dated June 22, 2004 (the "Staff Report") recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on June 24, 2004, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

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

NOW, THEREFORE, BE IT RESOLVED by the Board:

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to his/her recommended terms and conditions, including but not limited to those set forth in the CalHFA Staff Report, in relation to the Development described above and as follows:

PROJECT NUMBER	DEVELOPMENT NAME/ LOCALITY	NUMBER OF UNITS	MORTGAGE AMOUNT
04-002-C/N	Dublin Transit Center Dublin/Alameda	112	
		Construction First Mortgage:	$23,420,000
		Permanent First Mortgage:	$ 6,200,000

2. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to increase the mortgage amount so stated in this resolution by an amount not to exceed seven percent (7%) without further Board approval.

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

I hereby certify that this is a true and correct copy of Resolution 04-16 adopted at a duly constituted meeting of the Board of the Agency held on July 8, 2004, at Sacramento, California.

ATTEST: ________________________
Secretary

CALIFORNIA HOUSING FINANCE AGENCY
Loan Modification to Final Commitment
White Rock Apartments
El Dorado Hills, El Dorado County, CA
CalHFA Loan #02-008-N

SUMMARY

This Loan Modification is a request for approval of a $295,000 increase to a tax-exempt bridge loan and a new $1,500,000 Section 8 Increment Loan, which will be a second mortgage behind CalHFA's originally approved a tax-exempt, first mortgage loan in the amount of $10,000,000. The CalHFA Board of Directors previously approved the project financing at its September 2002 meeting. Attached for reference is the September 12, 2002 Board package for White Rock Apartments.

White Rock Apartments will be a newly constructed 168 unit family apartment community owned by Mercy Housing California XXI, a limited partnership with Mercy Housing West as general partner. The project will be located 2200 Valley View Parkway in El Dorado Hills, California.

LOAN TERMS	**ORIGINAL**	**MODIFIED**
First Mortgage Amount	$10,000,000	$10,000,000
Interest Rate:	5.85%	5.60%
Term:	35 year fixed, Fully amortized	40 year fixed, Fully amortized
Financing:	Tax-Exempt	Tax-Exempt
Second Mortgage Amount		$1,500,000
Interest Rate:		5.60%
Term:		10 year fixed, Fully amortized
Financing:		Tax-Exempt
Bridge Loan	$3,375,000	$3,670,000
Interest Rate:	5.85%	5.60%
Term:	1 year, Simple interest	1.33 years, Simple interest
Financing:	Tax-Exempt	Tax-Exempt

BACKGROUND FOR LOAN INCREASE

Prior to construction start, the developer planned to reduce the number of units from 180 to 168, due to higher than anticipated construction bids. Once construction started, the combination of unexpected site conditions, the delay on starting the structures, and increased project costs due to prevailing wage and materials increases, as well as storm water mitigation requirements, necessitated a re-application for an additional tax-exempt bond allocation to meet

The current modification request includes the addition of a 10 year Section 8 increment loan; an extension of the original loan term from thirty-five (35) years to forty (40) years; an extension of the bridge loan term from one year to 16 months; and a reduction in the interest rate from 5.85% to 5.60%.

HISTORY OF THE PROJECT

After the number of project units were reduced, the qualified bidder, Brown Construction, Inc., was awarded a contract in April 2003. During spring and early summer 2003, prices began to rise for lumber and other materials and new prevailing wage determinations came into affect. By late summer, the general contractor had exhausted all avenues of holding onto many subcontract prices. Rather than change contractors and re-bid the entire project in a very volatile market, the developer opted to stay with the contractor that had become very familiar with the project and negotiate the changes for a July 2003 construction start on the site-work.

The installation of the underground utilities and preparation on the road sub-surface required additional time and money due to previously undetected rocks, rising ground water, and storm water retention requirements. In addition, work could not proceed beyond the site utilities and roads until HUD approved the Section 8 Agreement to Enter into Housing Assistance Payments Contract (AHAP). HUD approval was finally received in November 2003, twelve months after submission. Heavy rains from November 2003 to January 2004 not only delayed the project further, but saturated the clay soil to the point that no work was feasible until paving was laid down. Exporting the saturated clay soil was necessary in February and March 2004 before beginning to pave in April 2004.

Construction Cost Review

A Construction Cost Review was completed in June 2004 for Bank of America and CalHFA by our joint construction inspector, Buis Construction Services, Inc. The purpose of the Review was to verify that the remaining funds are sufficient to complete construction.

	Site Work	Structures, GR, O&P and bond	Totals
Original Construction Contract	$1,602,338	$15,455,620	$17,057,958
Current Construction Contract	$2,595,832	$17,136,362	$19,732,194
Increase	$ 993,494	$ 1,680,742	$ 2,674,236

Total hard cost increases of $2,674,236 include $993,494 in site related changes, and $1,680,742 for structures, general requirements, and contractor overhead and profit, and bond premium. The original construction contract amounts are not reflected in the September 2002 Board presentation, since they were finalized prior to the construction contract being signed in April 2003. The current numbers reconcile with the Construction Cost Review, which recommends an additional $250,000 in contingency.

SECTION 8 SECOND MORTGAGE

The developer applied for and received an additional six Section 8 units for a total of 42 project based Section 8 vouchers. Fair Market Rents increased from $547, $685, $950, and $1,120, for one-, two-, three- and four-bedroom units respectively to $733, $918, $1,273, and $1,501 respectively, effective January 1, 2003 for El Dorado County. In the market study completed in August 2003 for El Dorado County Housing Authority, the final Section 8 rents for the project were concluded at $1,375 for the four bedroom units, which is lower than the Fair Market Rent for that unit. The Agreement to Enter into Housing Assistance Payments Contract, dated November 19, 2003 utilizes the lower of the FMR or the market rents so the actual Section 8 rents that can be charged are $733, $918, $1,273, and $1,375 for the one-, two-, three- and four-bedroom units respectively.

The originally proposed terms of the Section 8 Increment Loan, were that the second mortgage would be a ten year fully amortizing loan. Due to the equity investor's concerns related to annual renewal of the project based vouchers, the sponsor, Mercy Housing, has asked that CalHFA revise the terms of the Section 8 loan.

The proposed revisions are as follows: In the event that the Section 8 subsidies are not renewed during the original ten year term of the loan, the Section 8 loan will become a residual receipts loan, and the term will be extended to become co-terminus with the CalHFA 40 year first mortgage. The CalHFA second mortgage will only become a residual receipts loan during a year in which congressional appropriations prevent the PHA from providing enough Section 8 vouchers to the project such that there is enough cashflow to repay the loan. In the event that the Section 8 loan becomes a residual receipts loan, it will have a priority repayment position over all other residual receipts loans. Other provisions will be added as appropriate.

REPAYMENT OF COUNTY HELP LOAN

Another revision of the project structure has to do with Mercy's repayment of the County HELP loan. Originally Mercy was going to repay this loan at the completion of construction with investor proceeds. In order to increase the available investor proceeds, the repayment of this loan is being delayed for a year. CalHFA has reviewed the investor pay-in schedule and there are enough funds to pay back the County loan and interest, and the CalHFA Bridge loan and interest from the third investor pay-in, scheduled one year after permanent loan close. CalHFA will require that the county subordinate to the three CalHFA loans, and sign a stand still agreement stating that they cannot foreclose during the term of the CalHFA loan. In addition, CAlHFA will require an assignment of investor proceeds in the amount of $3,944,027 which equates to the Bridge loan principal plus interest.

OTHER INCREASED FINANCING

In order to maximize limited partner equity, Mercy has requested an extension of the bridge term from one year to 16 months. Equity has increased by $1,191,516 from the original estimate of $7,557,320 to the current amount of $8,748,836. Alliant Capital is expected to provide an updated commitment letter by August 2004. CalHFA review and approval of the updated Alliant commitment letter will be a condition of the CalHFA final revised commitment.

Bank of America increased the construction loan from $18,520,000 to $19,337,000 per their Modification Agreement dated May 2004. CalHFA review and approval of the executed Bank of America Modification Agreement will be a condition of the CalHFA final revised commitment.

CURRENT STATUS OF PROJECT

Currently the project is 43% complete with site work 93% complete and buildings 33% complete per the most recent inspection report dated June 11, 2004. Construction completion is expected by March 2005. The permanent loan closing date needs to be extended to July 1, 2005 to allow time for lease-up.

Site Work – The site has been rough graded. The building pads have been established for the apartment buildings and the community building. The installation of the main sewer, storm and water lines is nearly complete. The installation of the on site joint trench utility (gas, electric, telephone and TV) is substantially complete with only the cables and equipment remaining to be installed. The connection of the off site portion of these lines, which are the responsibility of the master developer of the area, have been completed with the exception of finalizing items that will be completed with the landscaping. The aggregate base has been installed for the roads and parking areas and the first lift of asphalt has been placed. The off site joint trench utilities has not started and requires an agreement with PG&E that is being negotiated. The majority of the on site block retaining walls have been constructed. The foundations are in for the trash enclosures and the block walls are nearly complete.

Buildings – All of the under slab plumbing and electrical lines have been installed, the foundations and ground slabs have been placed and the wood framing of all of the buildings is in progress. The rough-in of the waste lines, water, sprinkler and ventilation lines is also in progress in some buildings.

Project Summary

167 **Date:** **6/22/04**

Project Profile:

Project :	White Rock Apartments					*Units*	168
Location:	2200 Valley View Parkway		**Jun-02**		**Nov-03**	*Handicap Units*	9
	El Dorado CA	*Cap Rate:*	8.00%		7.50%	*Bldge Type*	New Const.
County:	El Dorado	*Market:*	$22,000,000	$	21,000,000	*Buildings*	12
Borrower:	Mercy Housing CA XXI	*Income:*	$21,800,000	$	20,220,000	*Stories*	2 & 3
GP:	Mercy Housing	*Final Value:*	$22,000,000	$	20,250,000	*Gross Sq Ft*	219,080
LP:	Alliant					*Land Sq Ft*	524,027
Program:	Tax Exempt	***LTC/LTV:***	**8/26/2002**		**6/22/2004**	*Units/Acre*	14
CHFA # :	02-008-N	*Loan/Cost*	36.8%		37.4%	*Total Parking*	374
		Loan/Value	45.5%		56.8%	*Covered Parking*	142 garages, 26 carports
		Loan/Value inc. Bridge	60.8%		74.9%	*Uncovered Parking*	206

Financing Summary:

		Amount	Per Unit		Rate	Term
CalHFA First Mortgage		$10,000,000	$59,524		5.60%	40
CalHFA - Second Mortgage		$1,500,000	$8,929		5.60%	10
HCD- MHP		$5,500,000	$32,738		3.00%	55
El Dorado County HOME		$3,000,000	$17,857		3.00%	55
FHLB - AHP		$1,000,000	$5,952		0.00%	40
Contributions From Operations		$0	$0			-
Borrower Contribution		$0	$0			-
Deferred Developer Equity		$973,149	$5,793			-
Tax Credit Equity*		$8,748,836	$52,076			
CalHFA Bridge		$3,670,000	$21,845		5.60%	1.33

Total CalHFA Tax exempt Financing **$15,170,000**

Unit Mix:

Revised Unit Mix and Rents

Type	35% SMI		50% AMI		60% AMI		Manager		Total
	number	rent	number	rent	number	rent	number	rent	
1 bedroom	12	361	6	552	22	672			40
2 bedroom	10	426	16	655	32	799	2	0	60
3 bedroom	12	494	10	758	28	925			50
4 bedroom	2	543	6	838	10	1024			18
subtotal	36		38		92		2		
									168

Fees, Escrows, and Reserves:

Fees	**Basis of Requirements**		**Amount**	**Security**
Loan fees - no change from original amt	2.00%	of Loan Amount	$267,500	Cash
Escrows				
Bond Origination Guarantee	1.00%	of Loan Amount	$151,700	Letter of Credit
Inspection fee	$1,500	x months of construction	$22,500	Cash
Construction Defect	2.50%	of Hard Costs	$460,735	Letter of Credit
Reserves				
Operating Expense Reserve	10.00%	of Gross Income	$166,846	Capitalized Reserves
Annual Replacement Reserve Deposit	$350	per unit	$58,800	Operations

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SOURCES:	8/26/2002 ORIGINAL BUDGET	6/22/2004 REVISED BUDGET	DIFFERENCE	Percent of Tot Sources	Interest Rate
CalHFA First Mortgage	10,000,000	10,000,000	-	32.5%	5.60%
CalHFA Second Mortgage		1,500,000	1,500,000	4.9%	5.60%
HCD- MHP	5,500,000	5,500,000	-	17.9%	3.00%
El Dorado County HOME	3,000,000	3,000,000	-	9.8%	3.00%
FHLB - AHP	1,000,000	1,000,000	-	3.3%	0.00%
Contributions From Operations	140,000	-	(140,000)	0.0%	
Borrower Contribution	-	-	-	0.0%	
Deferred Developer Equity	7,250	973,149	965,899	3.2%	
Tax Credit Equity*	7,557,320	8,748,836	1,191,516	28.5%	
Total Sources	**27,204,570**	**30,721,985**	**3,517,415**	**100.0%**	
(Gap)/Surplus		0			

*Note that the tax credit equity will be used to repay the CalHFA Bridge loan and interest, as well as the County construction loan and interest within sixteen months of perm loan close.

USES:	ORIGINAL BUDGET	REVISED BUDGET	DIFFERENCE	PER UNIT
ACQUISITION				
Total Land Cost or Value	1,800,000	1,800,000	-	10,714
Legal/Broker Fees	-		-	
Off-Site Improvements	425,000	425,000	-	2,530
Demolition	-		-	
Existing Improvements Value	-	260,000	260,000	1,548
Other	-		-	
Total Acquisition Cost	**2,225,000**	**2,485,000**	**260,000**	**14,792**
REHABILITATION				
Site Work			-	
Structures			-	
General Requirements	-		-	
Contractor Overhead	-		-	
Contractor Profit	-		-	
Other	-		-	
Other	-		-	
Total Rehab. Costs	-		-	
NEW CONSTRUCTION				
Site Work	2,000,000	2,595,832	595,832	15,451
Structures	12,596,170	15,833,556	3,237,386	94,247
General Requirements	732,215	517,914	(214,301)	3,083
Contractor Overhead	436,682	350,000	(86,682)	2,083
Contractor Profit	436,682	350,000	(86,682)	2,083
Bond Premium	161,572	84,892	(76,680)	505
Other	-		-	-
Total New Const. Costs	**16,363,321**	**19,732,194**	**3,368,873**	**117,454**
ARCHITECTURAL FEES				
Design	315,000	370,202	55,202	2,204
Supervision	80,786	60,000	(20,786)	357
Total Architectural Costs	**395,786**	**430,202**	**34,416**	2,561
			-	-
SURVEY & ENGINEERING	**87,000**	**247,000**	**160,000**	**1,470**

CONST. INTEREST & FEES				
Const. Loan Interest	663,750	804,032	140,282	4,786
Construction Loan Fee	192,000	238,280	46,280	1,418
HELP Loan Interest and Fee	43,875	168,446	124,571	1,003
Legal	15,000	15,000	-	89
Taxes	20,000	20,000	-	119
Insurance	10,000	10,000	-	60
Title and Recording	10,000	10,000	-	60
Wage Monitoring	15,000	-	(15,000)	-
El Dorado County Const. Loan Int.	-	4,500	4,500	27
Seller Carryback Interest	-	47,551	47,551	283
Total Const. Interest & Fees	**969,625**	**1,317,809**	**348,184**	**7,844**
PERMANENT FINANCING				
Commitment Fee	133,750	133,750	-	796
Finance Fee	133,750	133,750	-	796
Application Fee	500	500	-	3
Title and Recording	10,000	15,000	5,000	89
Bridge Loan Interest	197,438	274,027	76,589	1,631
Loan Modification Fee	-	6,300	6,300	38
CHFA Construction Inspection Fees	22,500	22,500	-	134
Total Perm. Financing Costs	**497,938**	**585,827**	**87,889**	**3,487**
LEGAL FEES				
Borrower Legal Fee	15,000	15,000	-	89
Lender Legal Costs	-		-	-
			-	-
Total Attorney Costs	**15,000**	**15,000**	**-**	**89**
			-	
RESERVES				
Operating Expense Reserve	286,500	286,500	-	1,705
Marketing	-		-	-
Bond Origination Guarantee	-	-	-	-
Letter of Credit Costs	10,000	10,000	-	60
Replacement Reserves	45,000	-	(45,000)	-
Total Reserve Costs	**341,500**	**296,500**	**(45,000)**	**1,765**
CONTRACT COSTS				
Appraisal	8,000	8,000	-	48
Market Study	6,500	8,025	1,525	48
PNA	-		-	-
Total Contract Costs	**14,500**	**16,025**	**1,525**	**95**
			-	
CONTINGENCY				
Hard Cost Contingency	972,105	250,000	(722,105)	1,488
Soft Cost Contingency	56,000	360,813	304,813	2,148
Total Contingency Costs	**1,028,105**	**610,813**	**(417,292)**	**3,636**
			-	
OTHER				
TCAC App/Alloc/Monitor Fees	105,984	78,258	(27,726)	466
Environmental Audit	5,375	5,375	-	32
Permit Processing Fees	1,877,556	1,703,805	(173,751)	10,142
Local Impact Fees	1,858,880	1,744,805	(114,075)	10,386
Capital Fees	40,000	20,000	(20,000)	119
Marketing Budget	71,500	56,847	(14,653)	338
Furnishings	82,500	82,500	-	491
Other	5,000	4,025	(975)	24
Total Other Costs	**4,046,795**	**3,695,615**	**(351,180)**	21,998
			-	-
PROJECT COSTS	**25,984,570**	**29,431,985**	**3,447,415**	**175,190**
			-	-
DEVELOPER COSTS				-
Developer Overhead/Profit	1,200,000	1,200,000	-	7,143
Audit and Tax Returns	20,000	20,000	-	119
Syndication Costs		70,000	70,000	417
Total Developer Costs	**1,220,000**	**1,290,000**	**70,000**	7,679
				-
TOTAL PROJECT COST	**27,204,570**	**30,721,985**	**3,517,415**	**182,869**

Annual Operating Budget

White Rock Apartments

		$ Per Unit
INCOME:		
Total Rental Income	1,660,956	9,887
Laundry	0	0
Head Start Lease	7,500	45
Commercial/Retail	0	0
Gross Potential Income (GPI)	**1,668,456**	9,931
Less:		
Vacancy Loss	83,423	780
Total Net Revenue	**1,585,033**	14,813
EXPENSES:		
Payroll	182,687	1,707
Administrative	138,788	1,297
Utilities	162,650	1,520
Operating and Maintenance	45,360	424
Insurance and Business Taxes	62,385	583
Taxes and Assessments	500	5
Reserve for Replacement Deposits	58,800	550
Subtotal Operating Expenses	**651,170**	6,086
Financial Expenses		
Mortgage Payments (1st loan)	627,110	5,861
Mortgage Payments (2nd loan)	196,240	1,834
Total Financial	**823,350**	7,695
Total Project Expenses	**1,474,520**	13,781

Cash Flow — White Rock Apartments — CalHFA # 02-008-N

RENTAL INCOME	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13
Section 8 Increment Increase	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Section 8 Rents	238,980	242,565	246,203	249,896	253,645	257,449	261,311	265,231	269,209	273,247	0	0	0
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Affordable Rents	1,421,976	1,457,525	1,493,964	1,531,313	1,569,595	1,608,835	1,649,056	1,690,283	1,732,540	1,775,853	1,820,249	1,865,756	1,912,400
TOTAL RENTAL INCOME	**1,660,956**	**1,700,090**	**1,740,167**	**1,781,209**	**1,823,240**	**1,866,285**	**1,910,367**	**1,955,513**	**2,001,749**	**2,049,101**	**1,820,249**	**1,865,756**	**1,912,400**
OTHER INCOME													
Other Income Increase	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Laundry	0	0	0	0	0	0	0	0	0	0	0	0	0
Head Start Lease	7,500	7,538	7,575	7,613	7,651	7,689	7,728	7,766	7,805	7,844	7,884	7,923	7,963
TOTAL OTHER INCOME	**7,500**	**7,538**	**7,575**	**7,613**	**7,651**	**7,689**	**7,728**	**7,766**	**7,805**	**7,844**	**7,884**	**7,923**	**7,963**
GROSS INCOME	**1,668,456**	**1,707,628**	**1,747,742**	**1,788,822**	**1,830,891**	**1,873,974**	**1,918,095**	**1,963,280**	**2,009,554**	**2,056,945**	**1,828,133**	**1,873,679**	**1,920,362**
Vacancy Rate : Section 8	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Vacancy Rate : Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	83,423	85,381	87,387	89,441	91,545	93,699	95,905	98,164	100,478	102,847	91,407	93,684	96,018
EFFECTIVE GROSS INCOME	**1,585,033**	**1,622,246**	**1,660,355**	**1,699,381**	**1,739,347**	**1,780,275**	**1,822,190**	**1,865,116**	**1,909,076**	**1,954,098**	**1,736,726**	**1,779,995**	**1,824,344**
OPERATING EXPENSES													
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	591,870	615,545	640,167	665,773	692,404	720,100	748,904	778,861	810,015	842,416	876,112	911,157	947,603
Replacement Reserve	58,800	58,800	58,800	58,800	58,800	61,740	61,740	61,740	61,740	61,740	64,827	64,827	64,827
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Taxes and Assessments	500	510	520	531	541	552	563	574	586	598	609	622	634
TOTAL EXPENSES	**651,170**	**674,855**	**699,487**	**725,104**	**751,745**	**782,392**	**811,207**	**841,175**	**872,341**	**904,753**	**941,549**	**976,605**	**1,013,064**
NET OPERATING INCOME	**933,863**	**947,391**	**960,868**	**974,277**	**987,601**	**997,883**	**1,010,983**	**1,023,941**	**1,036,736**	**1,049,344**	**795,178**	**803,389**	**811,280**
DEBT SERVICE													
CalHFA - 1st Mortgage	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110
CalHFA - 2nd Mortgage	196,240	196,240	196,240	196,240	196,240	196,240	196,240	196,240	196,240	196,240			
CalHFA - Bridge Loan		3,944,027											
County Loan Repayment		1,968,446											
CASH FLOW after debt service	**110,513**	**124,041**	**137,518**	**150,927**	**164,251**	**174,533**	**187,633**	**200,591**	**213,385**	**225,994**	**168,068**	**176,279**	**184,170**
DEBT COVERAGE RATIO - 1st	**1.49**	**1.51**	**1.53**	**1.55**	**1.57**	**1.59**	**1.61**	**1.63**	**1.65**	**1.67**	**1.27**	**1.28**	**1.29**
DEBT COVERAGE RATIO - 2nd	**1.13**	**1.15**	**1.17**	**1.18**	**1.20**	**1.21**	**1.23**	**1.24**	**1.26**	**1.27**			
MHP pymt	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**
DEBT COVERAGE RATIO - CalHFA	**1.10**	**1.12**	**1.14**	**1.15**	**1.17**	**1.18**	**1.19**	**1.21**	**1.22**	**1.24**	**1.22**	**1.24**	**1.25**

Cash Flow

RENTAL INCOME	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27
Section 8 Increment Increase	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Section 8 Rents	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Affordable Rents	1,960,210	2,009,215	2,059,445	2,110,931	2,163,705	2,217,797	2,273,242	2,330,073	2,388,325	2,448,033	2,509,234	2,571,965	2,636,264	2,702,171
TOTAL RENTAL INCOME	**1,960,210**	**2,009,215**	**2,059,445**	**2,110,931**	**2,163,705**	**2,217,797**	**2,273,242**	**2,330,073**	**2,388,325**	**2,448,033**	**2,509,234**	**2,571,965**	**2,636,264**	**2,702,171**
OTHER INCOME														
Other Income Increase	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Laundry	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Head Start Lease	8,002	8,042	8,083	8,123	8,164	8,204	8,245	8,287	8,328	8,370	8,412	8,454	8,496	8,538
TOTAL OTHER INCOME	**8,002**	**8,042**	**8,083**	**8,123**	**8,164**	**8,204**	**8,245**	**8,287**	**8,328**	**8,370**	**8,412**	**8,454**	**8,496**	**8,538**
GROSS INCOME	**1,968,212**	**2,017,257**	**2,067,528**	**2,119,054**	**2,171,868**	**2,226,002**	**2,281,488**	**2,338,360**	**2,396,653**	**2,456,403**	**2,517,646**	**2,580,419**	**2,644,760**	**2,710,709**
Vacancy Rate : Section 8	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Vacancy Rate : Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	98,411	100,863	103,376	105,953	108,593	111,300	114,074	116,918	119,833	122,820	125,882	129,021	132,238	135,535
EFFECTIVE GROSS INCOME	**1,869,801**	**1,916,394**	**1,964,151**	**2,013,102**	**2,063,275**	**2,114,702**	**2,167,413**	**2,221,442**	**2,276,821**	**2,333,583**	**2,391,763**	**2,451,398**	**2,512,522**	**2,575,174**
OPERATING EXPENSES														
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	985,507	1,024,927	1,065,924	1,108,561	1,152,904	1,199,020	1,246,981	1,296,860	1,348,734	1,402,684	1,458,791	1,517,143	1,577,829	1,640,942
Replacement Reserve	64,827	64,827	68,068	68,068	68,068	68,068	68,068	71,472	71,472	71,472	71,472	71,472	75,045	75,045
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Taxes and Assessments	647	660	673	686	700	714	728	743	758	773	788	804	820	837
TOTAL EXPENSES	**1,050,981**	**1,090,414**	**1,134,666**	**1,177,316**	**1,221,672**	**1,267,802**	**1,315,778**	**1,369,075**	**1,420,964**	**1,474,929**	**1,531,051**	**1,589,419**	**1,653,694**	**1,716,824**
NET OPERATING INCOME	**818,821**	**825,980**	**829,486**	**835,786**	**841,603**	**846,899**	**851,636**	**852,367**	**855,857**	**858,654**	**860,712**	**861,979**	**858,828**	**858,350**
DEBT SERVICE														
CalHFA - 1st Mortgage	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110
CalHFA - 2nd Mortgage														
CalHFA - Bridge Loan														
County Loan Repayment														
CASH FLOW after debt service	**191,711**	**198,870**	**202,376**	**208,676**	**214,493**	**219,789**	**224,526**	**225,257**	**228,747**	**231,544**	**233,602**	**234,869**	**231,718**	**231,240**
DEBT COVERAGE RATIO - 1st	**1.31**	**1.32**	**1.32**	**1.33**	**1.34**	**1.35**	**1.36**	**1.36**	**1.36**	**1.37**	**1.37**	**1.37**	**1.37**	**1.37**
DEBT COVERAGE RATIO - 2nd														
MHP pymt	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**
DEBT COVERAGE RATIO - CalHFA	**1.26**	**1.27**	**1.28**	**1.29**	**1.29**	**1.30**	**1.31**	**1.31**	**1.32**	**1.32**	**1.32**	**1.33**	**1.32**	**1.32**

Cash Flow

RENTAL INCOME	Year 28	Year 29	Year 30	Year 31	Year 32	Year 33	Year 34	Year 35	Year 36	Year 37	Year 38	Year 39	Year 40
Section 8 Increment Increase	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Section 8 Rents	0	0	0	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Affordable Rents	2,769,725	2,838,968	2,909,942	2,982,691	3,057,258	3,133,689	3,212,032	3,292,333	3,374,641	3,459,007	3,545,482	3,634,119	3,724,972
TOTAL RENTAL INCOME	**2,769,725**	**2,838,968**	**2,909,942**	**2,982,691**	**3,057,258**	**3,133,689**	**3,212,032**	**3,292,333**	**3,374,641**	**3,459,007**	**3,545,482**	**3,634,119**	**3,724,972**
OTHER INCOME													
Other Income Increase	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Laundry	0	0	0	.0	0	0	0	0	0	0	0	0	0
Head Start Lease	8,581	8,624	8,667	8,711	8,754	8,798	8,842	8,886	8,930	8,975	9,020	9,065	9,110
TOTAL OTHER INCOME	**8,581**	**8,624**	**8,667**	**8,711**	**8,754**	**8,798**	**8,842**	**8,886**	**8,930**	**8,975**	**9,020**	**9,065**	**9,110**
GROSS INCOME	**2,778,306**	**2,847,592**	**2,918,609**	**2,991,401**	**3,066,012**	**3,142,487**	**3,220,874**	**3,301,219**	**3,383,571**	**3,467,982**	**3,554,502**	**3,643,184**	**3,734,082**
Vacancy Rate : Section 8	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Vacancy Rate : Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	138,915	142,380	145,930	149,570	153,301	157,124	161,044	165,061	169,179	173,399	177,725	182,159	186,704
EFFECTIVE GROSS INCOME	**2,639,391**	**2,705,212**	**2,772,679**	**2,841,831**	**2,912,711**	**2,985,363**	**3,059,830**	**3,136,158**	**3,214,393**	**3,294,583**	**3,376,777**	**3,461,025**	**3,547,378**
OPERATING EXPENSES													
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	1,706,579	1,774,843	1,845,836	1,919,670	1,996,456	2,076,315	2,159,367	2,245,742	2,335,572	2,428,995	2,526,154	2,627,201	2,732,289
Replacement Reserve	75,045	75,045	75,045	78,798	78,798	78,798	78,798	78,798	78,798	78,798	78,798	78,798	78,798
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Taxes and Assessments	853	871	888	906	924	942	961	980	1,000	1,020	1,040	1,061	1,082
TOTAL EXPENSES	**1,782,478**	**1,850,758**	**1,921,770**	**1,999,373**	**2,076,178**	**2,156,055**	**2,239,126**	**2,325,520**	**2,415,369**	**2,508,812**	**2,605,992**	**2,707,059**	**2,812,169**
NET OPERATING INCOME	**856,913**	**854,454**	**850,909**	**842,458**	**836,534**	**829,308**	**820,704**	**810,638**	**799,023**	**785,771**	**770,785**	**753,966**	**735,210**
DEBT SERVICE													
CalHFA - 1st Mortgage	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110	627,110
CalHFA - 2nd Mortgage													
CalHFA - Bridge Loan													
County Loan Repayment													
CASH FLOW after debt service	**229,803**	**227,344**	**223,799**	**215,348**	**209,424**	**202,198**	**193,594**	**183,528**	**171,913**	**158,661**	**143,675**	**126,856**	**108,100**
DEBT COVERAGE RATIO - 1st	**1.37**	**1.36**	**1.36**	**1.34**	**1.33**	**1.32**	**1.31**	**1.29**	**1.27**	**1.25**	**1.23**	**1.20**	**1.17**
DEBT COVERAGE RATIO - 2nd													
MHP pymt	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**
DEBT COVERAGE RATIO - CalHFA	**1.32**	**1.31**	**1.31**	**1.30**	**1.29**	**1.28**	**1.26**	**1.25**	**1.23**	**1.21**	**1.19**	**1.16**	**1.13**

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CALIFORNIA HOUSING FINANCE AGENCY

Final Commitment
White Rock Apartments
CHFA Loan #02-008-N

SUMMARY:

This is a Final Commitment request for a tax-exempt, first mortgage loan in the amount of $10,000,000, and a bridge loan in the amount of $3,375,000. Security for the first mortgage loan will be a newly constructed 180 unit family apartment community owned by Mercy Housing California XXI, a limited partnership with Mercy Housing California as general partner. The project will be located 2200 Valley View Parkway in El Dorado Hills, California.

LOAN TERMS:

First Mortgage Amount	$10,000,000
Interest Rate:	5.85%
Term:	35 year fixed, fully amortized
Financing:	Tax-Exempt
Bridge Loan	$3,375,000
Interest Rate:	5.85%
Term:	1 year, simple interest
Financing:	Tax-Exempt

LOCALITY INVOLVEMENT:

The property will have secondary financing from the State of California Department of Housing and Community Development (HCD), Multi-Family Housing Program in the amount of $5,500,000. These funds were awarded to the project in March 2002, and a conditional commitment was issued in April 2002. In addition, El Dorado County will provide HOME funds to the project in the amount of $3,000,000. Lastly, the project will benefit from $1,000,000 in funds from the Federal Home Loan Bank's Affordable Housing Program. The repayment of these loans will be from residual receipts.

PROJECT DESCRIPTION:

A. Site Design

The project will be located on 12.03 acres in a new subdivision in the El Dorado Hills community one-half mile south of Highway 50. The roughly triangular site will be accessed via

Valley View Parkway, which will be a four lane street with a median. It is currently sloping slightly to the south, however improvement plans call for fill to level the site. The site is currently vacant and being used as a staging area for the new construction of 344 market rate units adjacent to the north.

White Rock's site plan has been designed to foster a strong sense of community while also allowing for a sense of privacy for each resident. The site is relatively dense with scarce open space within its boundaries, however there will be significant open space and recreational opportunities at the adjacent regional park. Two tot lots will be located at the community building, one for the exclusive use of Head Start and the other open for all residents. In addition, several picnic areas will be scattered throughout the project. The community building will be approximately 3,400 square feet and will be designed to commercial standards, including all child care code and licensing requirements. It will contain leasing offices, a 1,400 square foot childcare facility that will be operated by the El Dorado County Office of Education's Head Start program and a full kitchen for use by Head Start only. Head Start will offer a pre-school "wrap program" to families with children ages 3 to 5 years. Since the families must be low income to participate in the Head Start Program, it is expected that only tenants of the project will utilize the on-site childcare. Fees will be on a sliding scale based on income. The community building will also offer a 1,000 square foot community room with a kitchenette and restrooms which will be shared by the residents, staff and childcare facility. Parking lots will be located to the rear of most buildings and will provide 36 covered stalls and 206 uncovered spaces, in addition to 144 attached single-car garages.

B. Project Description

The project will have twelve residential garden-style buildings and a community building. There will be three different types of buildings ranging from two to three stories each, with between twelve and twenty units each, wood framed stairs and first floor garage space. The buildings will have conventional wood frames with slab on grade construction. Exteriors will be a mixture of composite cement, Hardi-plank siding, trim, and stucco. The roof will be pitched composition shingle.

All units will have enclosed patios or balconies, with sliding glass doors. The unit mix in the project will consist of one, two, three and four bedroom flats, with one bathroom in the one bedroom units, and in 24 of the two bedroom units. Thirty-six of the two-bedroom units and all the three and four bedroom units will have two bathrooms each. Interior finishes will include carpeting in all the living areas, sheet vinyl flooring in the kitchens and bathrooms, and tile entryways. All windows will be covered with vertical blinds including patio doors. The natural gas kitchens will feature range/oven combinations, dishwashers and disposals with Formica counter surfaces. The units will have central heat and air conditioning, and all units will have a washer and dryer. Each unit will be individually metered for gas and electricity.

C. Project Location

The subject neighborhood is an area that is predominantly comprised of existing single-family residential subdivisions with additional land uses including some multi-family residential, retail, commercial and office space. Surrounding land uses include Valley View Apartments, a 344 unit market rate apartment complex currently under construction to the north. To the northwest of the site is the existing Sunset Mobile Home Park, a well-maintained park of approximately 75 mobile homes for families and seniors. Carson Creek runs along the western boundary of the site, with vacant land currently undergoing mapping for single-family homes further west. To the east is a vacant residential parcel and open space leading up to the ridge into the Sierra foothills. To the south is a 50 acre parcel zoned for open space and a planned regional park. Further to the south is the El Dorado Irrigation District's waste water treatment plant.

The neighborhood is served by the El Dorado Hills Community Service District, which offers a year round program of recreation activities. There are numerous existing parks and community recreational facilities, including swimming pools and ball fields close by. In addition, the planned 30 acre regional park, which will be located adjacent to the project will have a new sports complex and ball fields. It is expected that a public swimming pool will also be located in the new regional park. The El Dorado Hills Golf Course is located on the other side of Highway 50. Additionally, Folsom Lake State Park, adjacent to the northwest portion of the market area offers boating, fishing, swimming and water skiing. There are three schools within 2.7 miles of the site, and the Folsom Lake Community College within 3.7 miles. The nearest hospital is 4.7 miles from the proposed project in Folsom. Shopping and employment opportunities are located at the El Dorado Hills Business Park and the downtown Town Center, within one mile of the project. There is a transportation hub about one-third mile from the site which has a carpool park and ride, public buses and commuter lines for an easy commute to Sacramento and other areas.

MARKET:

A. Market Overview

The community of El Dorado Hills is located in western El Dorado County which is bounded by Sacramento County on the east, and Nevada on the west. El Dorado Hills is approximately 30 miles east of Sacramento and 20 miles west of Placerville, the county seat. Two major highways bisect the county: Highway 50, connecting Sacramento with Placerville and Lake Tahoe, and Highway 49, running north and south through the western half of the county.

The market area for El Dorado Hills has been defined in the market study completed by Laurin Associates dated June 2002, as a polygon bound by Shingle Road to the east, El Dorado County's boundary to the west, and by the outskirts of El Dorado Hills to the north and south. This market area encompasses 70 square miles and has a current estimated population of 42,577 representing 26% of the County's population.

The County of El Dorado had a population of 125,995 in 1990, which increased by 28% to 161,467 by 2002. The El Dorado Hills market area had a population of 26,118 in 1990, which increased 107% by 2002. It is expected that the population for the El Dorado Hills market area will grow another 5% over the next two years to 44,706. El Dorado Hills is a fast growing community off Highway 50. Currently the population for El Dorado Hills itself is estimated at 18,912 persons, a 63% increase from the 1990 population.

Although El Dorado Hills had the lowest unemployment rate in the County as of year-end 2001, of 1.4%, a vital part of the community's future is the 885-acre El Dorado Hills Business Park. Many of California's progressive firms have relocated to this Business Park, including the new Blue Shield corporate headquarters and a number of high-tech businesses. This park is approximately 40% built out and when completed it will accommodate 27,000 personnel. In addition, the downtown Town Center, which is currently under construction, will be comprised of close to one million square feet of commercial space. It will by anchored by Ralph's supermarket and Longs Drugs, and will have movie theatres, a 100-120 room hotel, car dealerships and several restaurants. These two centers, planned for completion in the next few years, will provide jobs to accommodate the population growth expected in El Dorado County.

El Dorado County, and in particular West El Dorado County is projected to have continued growth in all the major categories: population, housing, income, and employment over the long term. Western El Dorado County offers a variety of housing opportunities, from entry-level to move-up, as well as custom home sites on estate lots. The current job market offers a full range of employment opportunities, and many areas of the west county are within a reasonable commute to job centers in Sacramento.

B. Market Demand

Between 1990 and 2002, the number of households in the El Dorado Hills market area increased from 9,151 to 14,282. This represents an annual growth rate of 4.7%, or an average of 428 households per year. Comparatively, El Dorado County increased at an annual rate of 1.9% over the same period. Households in the El Dorado Hills market area are projected to increase by 2.4%, to 14,968 households by 2004. Average household size increased from 2.8 to 3.0 in the market area from 1990 to 2002, with two person households at 36.8%, three person households at 19.3%, four person households at 20.4%, and five plus person households at 10.1% of the total number of households.

The ratio of homeowners to renters has remained constant in the El Dorado Hill market area from 1990 to 2002, with roughly 80% homeowners, and 20% renters. Currently, there are 2,771 renters (19.4%) in the El Dorado Hills market area, an increase of 45% (in terms of households) since 1990.

In a survey of comparable affordable housing complexes within a 20 mile radius Mercy found an average vacancy rate of one-half percent and significant waiting lists at each project. In addition, El Dorado County's Section 8 waiting list is lengthy, mainly due to the lack of available affordable units in the county, in which the prospective Section 8 tenants could live.

C. Housing Supply

El Dorado Hills is a relatively young city and its housing stock is relatively new, with the majority (73%) of the homes having been built in the past 20 years. According to the Census there were 7,530 housing units in El Dorado Hills in 2001, an increase of 98.4% over the 1990 total. Ninety-five percent of these units are single family homes, with only 375 multi-family units. The prevailing single family price range is from $300,000 to $500,000, with some custom homes selling for over $1,000,000. The overall vacancy rate for owner and market rental housing in El Dorado Hills was 2.9% in 2000.

In the El Dorado Hills Market area there are only four affordable housing complexes, totaling 260 units, all with long waiting lists of four to six months. Additionally, there are only three existing market rate projects in the area, totaling 344 units. According to the El Dorado County Planning Dept, there are no additional pending or proposed rent restricted multifamily developments in process. There are however, two proposed market rate communities in the planning stages. These include Sterling Ranch (160 units) and the project adjacent to the White Rock Village site of 344 units. Although 95% of the housing stock in the area is currently single family homes, there are an additional 12,500 single family homes in the development process, which will come on line within the next five to seven years. Some of these single family subdivisions are being held up by slow-growth governmental restrictions.

PROJECT FEASIBILITY:

A. Estimated Lease-Up Period

The market study estimates that these apartments would absorb 18 to 20 units per month for an estimated absorption period between nine and ten months. Three and four bedrooms are expect to take longer to rent up than the smaller units.

B. Rent Differentials (Market vs. Restricted)

Rent Level	Subject Rents	Market Rents	Market Rents Difference	% of Market Rents
One Bedroom		$917		
35%	$340		$577	37%
50%	$493		$424	54%
60%	$601		$316	66%
Two Bedroom		$1,040		
35%	$401		$639	39%
50%	$586		$454	56%
60%	$715		$325	69%
Three Bedroom		$1,131		
35%	$464		$667	41%
50%	$678		$453	60%
60%	$827		$304	73%
Four Bedroom		$1,230		
35%	$514		$716	42%
50%	$752		$478	61%
60%	$919		$311	75%

OCCUPANCY RESTRICTIONS:
The occupancy restrictions described below are expected to reflect those in the final Regulatory Agreements.

CHFA:	20% of the units (36) will be restricted at 50% or less AMI
TCAC:	20% of the units (36) will be restricted at 50% or less AMI 80% of the units (142) will be restricted at 60% or less AMI
HCD:	20% of the units (36) will be restricted at 35% or less SMI 25% of the units (44) will be restricted at 50% or less SMI 5% of the units (8) will be restricted at 60% or less SMI
HOME:	6% of the units (10) will be restricted at 50% or less AMI 23% of the units (40) will be restricted at 60% or less AMI

ENVIRONMENTAL:

CHFA has reviewed the Phase I for the project which was completed by Youngdahl Consulting Group Inc. in November 2001. Youngdahl also completed earlier environmental reports on the site including a Phase I dated April 2001, and a Phase II dated May 2001, both of which were referenced in the November 2001 report. Two open holes were found on the site in earlier investigations, which were thought to have been excavated in conjunction with mineral exploration. The April 2001 report concluded that the absence of vegetation on the tailings pile adjacent to Hole 1 on the subject property may be indicative of a recognized environmental condition, and recommended that tailing samples be collected and analyzed. The Phase II Investigation's scope of work included a random sampling of four soil specimens from the top three inches of the tailing's barren soil area, and the collection of two soil samples upgradient of the pile to establish naturally occurring background levels. None of the samples had metal concentrations above CCR Title 22 TTLC, and the report concluded that the material within the barren area would not be classifiable as a hazardous waste. Youngdahl recommended no further action related to the tailings pile adjacent to Hole 1. They stated, however, that if there were any concerns regarding mercury leaching, the pH of the material could be increased by mixing it with crushed limestone sand to reduce the potential for metals to leach from the material.

The site consists of undeveloped land with portions possibly used for grazing purposes in the past. Currently the site is being used as a staging area for construction of the adjacent apartments. A review of regulatory records revealed one site with environmental problems within the ASTM minimum search distance from the subject, however Youngdahl concluded that this site does not appear to pose a threat to impact the subject property. Youngdahl found no evidence of recognized environmental conditions in connection with the subject property in their November 2001 Phase I Site Assessment. CHFA will require an updated Phase I prior to closing.

A Geotechnical Engineering Study was completed in November 2000 by Youngdahl Consulting Group Inc. to explore and evaluate the surface and subsurface conditions at the site and to develop geotechnical information and design criteria for the proposed project. The study states that the site is suitable for the proposed improvements provided the recommendations presented in the report are incorporated into the project plans and specifications.

In addition, a seismic risk evaluation and NEPA review have been ordered. A condition of the final commitment will be satisfactory review of these documents.

ARTICLE 34:

An opinion letter dated July 2002 from the law offices of Gubb & Barshay LLP was received that states that Article 34 will not apply. The opinion letter is subject to CHFA review and approval by CHFA's legal department.

DEVELOPMENT TEAM:

A. Borrower's Profile

The borrower is Mercy Housing California XXI, a California limited partnership. The developer and initial managing general partner is Mercy Housing California. Mercy, founded in 1968, is a California non-profit public benefit corporation which revitalizes communities through an array of development activities and social services that meet the needs of lower income people. In the past 34 years Mercy has developed over 4,000 residential units in 77 developments, including family, elderly and special needs housing. Several of these projects, including Duchow Way and Padre Apartments, were financed by CHFA. In 1996, Mercy received the Metropolitan Life Foundation Award for Excellence in Affordable Housing.

B. Management Agent

Mercy's non-profit affiliate, Mercy Services Corporation (MSC), will be the property manager for the project. Since its establishment in 1992, MSC has managed Mercy's properties with a commitment to their long-term maintenance. MSC currently manages more than 139 properties with 7,955 units of rental housing nationally for Mercy Housing and third party owners, including 79 sites with over 4,000 units in California. MSC's property management portfolio is exclusively affordable with a growing number of mixed-use properties also. Properties managed include those serving large families, seniors, and special needs. In 2000, MSC was a recipient of the Ashland Good Neighbor Award.

C. Contractor

The contractor has not yet been determined, however, Mercy's in-house construction manager, Randy Underwood, prepared the construction cost estimates based on specifications provided by the architect. In addition, the site work estimates were prepared by Vearkamp General Engineering, the contractor who is currently building the adjacent market rate units.

D. Architect

KTGY Group, Inc. was founded in 1991 to provide planning and architectural design services for residential communities and related specialty projects throughout the western United States. Headquartered in Irvine, KTGY is 85 professionals strong with 15 shareholders. Their goal is to provide a good design that is well accepted in the marketplace, appropriate for the end user, and attains the client's profitability goal. Each client is partnered with a particular team based upon product type and/or region including a Planner, Designer, and Architect.

Project Summary

Date: 26-Aug-02

Project Profile:

Project : White Rock Apartments
Location: 2200 Valley View Parkway
El Dorado CA
County: El Dorado
Borrower: Mercy Housing CA XXI
GP: Mercy Housing
LP: not yet determined
Program: Tax Exempt
CHFA # : 02-008-N

Cap Rate:	8.00%
Market:	$22,000,000
Income:	$21,800,000
Final Value:	$22,000,000

LTC/LTV:

Loan/Cost	36.8%
Loan/Value	45.5%
Loan/Value inc. Bridge	60.8%

Project Description:

Units	180
Handicap Units	9
Bldge Type	New Const.
Buildings	12
Stories	2 & 3
Gross Sq Ft	219,080
Land Sq Ft	524,027
Units/Acre	15
Total Parking	386
Covered Parking	144 garages & 36 carports
Uncovered Parking	206

Financing Summary:

	Amount	Per Unit	Rate	Term
CHFA First Mortgage	$10,000,000	$55,556	5.85%	35
HCD- MHP	$5,500,000	$30,556	3.00%	55
El Dorado County HOME	$3,000,000	$16,667	3.00%	55
FHLB - AHP	$1,000,000	$5,556	0.00%	35
Contributions From Operations	$140,000	$778		-
Borrower Contribution	$0	$0		-
Deferred Developer Equity	$7,250	$40		-
Tax Credit Equity	$7,557,320	$41,985		
CHFA Bridge	$3,375,000	$18,750	5.85%	1

Unit Mix:

Type	35% SMI		50% AMI		60% AMI		Section 8 Increment		Manager		Total
	number	rent*	number	rent*	number	rent*	number	rent*	number	rent*	
1 bedroom	12	340	10	493	26	601	12	164	0	0	48
2 bedroom	10	401	16	586	32	715	10	225	2	0	60
3 bedroom	12	464	12	678	30	827	12	419	0	0	54
4 bedroom	2	514	6	752	10	919	2	527	0	0	18
subtotal	36		44		98		36		2		180

* net rent

Fees, Escrows, and Reserves:

	Basis of Requirements	Amount	Security
Fees			
Loan fees	2.00% of Loan Amount	$267,500	Cash
Escrows			
Bond Origination Guarantee	1.00% of Loan Amount	$133,750	Letter of Credit
Inspection fee	$1,500 x months of construction	$22,500	Cash
Construction Defect	2.50% of Hard Costs	$364,904	Letter of Credit
Reserves			
Operating Expense Reserve	10.00% of Gross Income	$150,085	Capitalized Reserves
Operating Expense Reserve (Req. by HCD)	19.09% of Gross Income	$286,500	Cash
Replacement Reserve (Req. by HCD)	3.00% of Gross Income	$45,000	Cash
Annual Replacement Reserve Deposit	$350 per unit	$63,000	Operations

Sources and Uses — White Rock Apartments

SOURCES:

Name of Lender / Source	Amount	$ Per Unit	% of Total
CHFA First Mortgage	10,000,000	55,556	36.8%
HCD- MHP	5,500,000	30,556	20.2%
El Dorado County HOME	3,000,000	16,667	11.0%
Other Loans	1,140,000	6,333	4.2%
Total Institutional Financing	**19,640,000**	**109,111**	**72.2%**
Equity Financing			
Tax Credits	7,557,320	41,985	27.8%
Deferred Developer Equity	7,250	40	0.0%
Total Equity Financing	**7,564,570**	**42,025**	**27.8%**
TOTAL SOURCES	**27,204,570**	**151,137**	**100.0%**

USES:

Acquisition	2,225,000	12,361	8.2%
Rehabilitation	0	0	0.0%
New Construction	16,201,749	90,010	59.6%
Architectural Fees	395,786	2,199	1.5%
Survey and Engineering	87,000	483	0.3%
Const. Loan Interest & Fees	1,131,197	6,284	4.2%
Permanent Financing	497,938	2,766	1.8%
Legal Fees	15,000	83	0.1%
Reserves	341,500	1,897	1.3%
Contract Costs	14,500	81	0.1%
Construction Contingency	1,028,105	5,712	3.8%
Local Fees	3,736,436	20,758	13.7%
TCAC	105,984	589	0.4%
Other Costs	204,375	1,135	0.8%
PROJECT COSTS	**25,984,570**	**144,359**	**95.5%**
Developer Overhead/Profit	1,200,000	6,667	4.4%
Audit and Tax Returns	20,000	111	0.1%
TOTAL USES	**27,204,570**	**151,136**	**100.0%**

Annual Operating Budget

White Rock Apartments

		$ per unit
INCOME:		
Total Rental Income	1,493,352	8,296
Laundry	0	-
Head Start Lease	7,500	42
Commercial/Retail	0	-
Gross Potential Income (GPI)	**1,500,852**	**8,338**
Less:		
Vacancy Loss	75,043	417
Total Net Revenue	**1,425,809**	**7,921**
EXPENSES:		
Payroll	179,387	997
Administrative	146,560	814
Utilities	172,500	958
Operating and Maintenance	51,610	287
Insurance and Business Taxes	42,104	234
Taxes and Assessments	18,172	101
Reserve for Replacement Deposits	63,000	350
Subtotal Operating Expenses	**673,333**	**3,741**
Financial Expenses		
Mortgage Payments (1st loan)	672,183	3,734
Total Financial	**672,183**	**3,734**
Total Project Expenses	**1,345,515**	**7,475**

Cash Flow — White Rock Apartments — CHFA # 02-008-N

RENTAL INCOME	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Section 8 Increment Increase	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*
Section 8 Rents	123,600	125,454	127,336	129,246	131,185	133,152	135,150	137,177	139,234	141,323
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	1,369,752	1,403,996	1,439,096	1,475,073	1,511,950	1,549,749	1,588,492	1,628,205	1,668,910	1,710,633
TOTAL RENTAL INCOME	**1,493,352**	**1,529,450**	**1,566,432**	**1,604,319**	**1,643,134**	**1,682,901**	**1,723,642**	**1,765,382**	**1,808,144**	**1,851,956**
OTHER INCOME										
Other Income Increase	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*
Laundry	0	0	0	0	0	0	0	0	0	0
Head Start Lease	7,500	7,537	7,575	7,613	7,651	7,689	7,727	7,766	7,805	7,844
TOTAL OTHER INCOME	**7,500**	**7,537**	**7,575**	**7,613**	**7,651**	**7,689**	**7,727**	**7,766**	**7,805**	**7,844**
GROSS INCOME	**1,500,852**	**1,536,987**	**1,574,006**	**1,611,932**	**1,650,785**	**1,690,590**	**1,731,369**	**1,773,147**	**1,815,949**	**1,859,799**
Vacancy Rate : Section 8	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	75,043	76,849	78,700	80,597	82,539	84,529	86,568	88,657	90,797	92,990
EFFECTIVE GROSS INCOME	**1,425,809**	**1,460,137**	**1,495,306**	**1,531,335**	**1,568,246**	**1,606,060**	**1,644,801**	**1,684,490**	**1,725,152**	**1,766,809**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	609,833	634,226	659,595	685,979	713,418	741,955	771,633	802,498	834,598	867,982
Replacement Reserve	63,000	63,000	63,000	63,000	63,000	66,150	66,150	66,150	66,150	66,150
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	500	510	520	531	541	552	563	574	586	598
TOTAL EXPENSES	**673,333**	**697,736**	**723,115**	**749,510**	**776,959**	**808,657**	**838,346**	**869,223**	**901,334**	**934,730**
NET OPERATING INCOME	**752,476**	**762,401**	**772,191**	**781,825**	**791,287**	**797,404**	**806,455**	**815,267**	**823,818**	**832,080**
DEBT SERVICE										
CHFA - 1st Mortgage	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183
CHFA - Bridge Loan	3,572,438									
CASH FLOW after debt service	**80,294**	**90,219**	**100,008**	**109,643**	**119,104**	**125,221**	**134,272**	**143,085**	**151,635**	**159,897**
DEBT COVERAGE RATIO - 1st	**1.12**	**1.13**	**1.15**	**1.16**	**1.18**	**1.19**	**1.20**	**1.21**	**1.23**	**1.24**
MHP pymt	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**
DEBT COVERAGE RATIO - MHP	**1.08**	**1.10**	**1.11**	**1.12**	**1.14**	**1.15**	**1.16**	**1.17**	**1.18**	**1.20**

Cash Flow

RENTAL INCOME	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Section 8 Increment Increase	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*
Section 8 Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	1,753,398	1,797,233	1,842,164	1,888,218	1,935,424	1,983,809	2,033,405	2,084,240	2,136,346	2,189,754
TOTAL RENTAL INCOME	**1,753,398**	**1,797,233**	**1,842,164**	**1,888,218**	**1,935,424**	**1,983,809**	**2,033,405**	**2,084,240**	**2,136,346**	**2,189,754**
OTHER INCOME										
Other Income Increase	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*
Laundry	0	0	0	0	0	0	0	0	0	0
Head Start Lease	7,883	7,922	7,962	8,002	8,042	8,082	8,123	8,163	8,204	8,245
TOTAL OTHER INCOME	**7,883**	**7,922**	**7,962**	**8,002**	**8,042**	**8,082**	**8,123**	**8,163**	**8,204**	**8,245**
GROSS INCOME	**1,761,281**	**1,805,156**	**1,850,126**	**1,896,220**	**1,943,466**	**1,991,891**	**2,041,527**	**2,092,403**	**2,144,550**	**2,197,999**
Vacancy Rate : Section 8	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	88,064	90,258	92,506	94,811	97,173	99,595	102,076	104,620	107,227	109,900
EFFECTIVE GROSS INCOME	**1,673,217**	**1,714,898**	**1,757,620**	**1,801,409**	**1,846,292**	**1,892,297**	**1,939,451**	**1,987,783**	**2,037,322**	**2,088,099**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	902,701	938,809	976,362	1,015,416	1,056,033	1,098,274	1,142,205	1,187,894	1,235,409	1,284,826
Replacement Reserve	69,458	69,458	69,458	69,458	69,458	72,930	72,930	72,930	72,930	72,930
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	609	622	634	647	660	673	686	700	714	728
TOTAL EXPENSES	**972,768**	**1,008,889**	**1,046,453**	**1,085,521**	**1,126,150**	**1,171,878**	**1,215,822**	**1,261,524**	**1,309,054**	**1,358,484**
NET OPERATING INCOME	**700,449**	**706,009**	**711,166**	**715,888**	**720,142**	**720,419**	**723,629**	**726,259**	**728,268**	**729,615**
DEBT SERVICE										
CHFA - 1st Mortgage	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183
CHFA - Bridge Loan										
CASH FLOW after debt service	**28,266**	**33,827**	**38,984**	**43,706**	**47,960**	**48,237**	**51,446**	**54,076**	**56,086**	**57,432**
DEBT COVERAGE RATIO - 1st	**1.04**	**1.05**	**1.06**	**1.07**	**1.07**	**1.07**	**1.08**	**1.08**	**1.08**	**1.09**
MHP pymt	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**
DEBT COVERAGE RATIO - MHP	**1.01**	**1.02**	**1.02**	**1.03**	**1.04**	**1.04**	**1.04**	**1.04**	**1.05**	**1.05**

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Cash Flow

RENTAL INCOME	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
Section 8 Increment Increase	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*
Section 8 Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	2,244,498	2,300,611	2,358,126	2,417,079	2,477,506	2,539,444	2,602,930	2,668,003	2,734,703	2,803,071
TOTAL RENTAL INCOME	**2,244,498**	**2,300,611**	**2,358,126**	**2,417,079**	**2,477,506**	**2,539,444**	**2,602,930**	**2,668,003**	**2,734,703**	**2,803,071**
OTHER INCOME										
Other Income Increase	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*
Laundry	0	0	0	0	0	0	0	0	0	0
Head Start Lease	8,286	8,328	8,369	8,411	8,453	8,495	8,538	8,581	8,623	8,667
TOTAL OTHER INCOME	**8,286**	**8,328**	**8,369**	**8,411**	**8,453**	**8,495**	**8,538**	**8,581**	**8,623**	**8,667**
GROSS INCOME	**2,252,784**	**2,308,938**	**2,366,495**	**2,425,490**	**2,485,959**	**2,547,939**	**2,611,468**	**2,676,584**	**2,743,327**	**2,811,737**
Vacancy Rate : Section 8	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	112,639	115,447	118,325	121,275	124,298	127,397	130,573	133,829	137,166	140,587
EFFECTIVE GROSS INCOME	**2,140,145**	**2,193,491**	**2,248,170**	**2,304,216**	**2,361,661**	**2,420,542**	**2,480,894**	**2,542,754**	**2,606,160**	**2,671,150**
OPERATING EXPENSES										
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	1,336,219	1,389,667	1,445,254	1,503,064	1,563,187	1,625,714	1,690,743	1,758,373	1,828,707	1,901,856
Replacement Reserve	76,577	76,577	76,577	76,577	76,577	80,406	80,406	80,406	80,406	80,406
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	743	758	773	788	804	820	837	853	871	888
TOTAL EXPENSES	**1,413,539**	**1,467,002**	**1,522,604**	**1,580,430**	**1,640,568**	**1,706,940**	**1,771,985**	**1,839,632**	**1,909,984**	**1,983,149**
NET OPERATING INCOME	**726,607**	**726,489**	**725,566**	**723,786**	**721,093**	**713,602**	**708,909**	**703,123**	**696,176**	**688,001**
DEBT SERVICE										
CHFA - 1st Mortgage	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183	672,183
CHFA - Bridge Loan										
CASH FLOW after debt service	**54,424**	**54,307**	**53,384**	**51,603**	**48,911**	**41,419**	**36,726**	**30,940**	**23,994**	**15,818**
DEBT COVERAGE RATIO - 1st	**1.08**	**1.08**	**1.08**	**1.08**	**1.07**	**1.06**	**1.05**	**1.05**	**1.04**	**1.02**
MHP pymt	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**	**23,100**
DEBT COVERAGE RATIO - MHP	**1.05**	**1.04**	**1.04**	**1.04**	**1.04**	**1.03**	**1.02**	**1.01**	**1.00**	**0.99**

Cash Flow

RENTAL INCOME	Year 31	Year 32	Year 33	Year 34	Year 35
Section 8 Increment Increase	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*
Section 8 Rents	0	0	0	0	0
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Affordable Rents	2,873,147	2,944,976	3,018,600	3,094,065	3,171,417
TOTAL RENTAL INCOME	**2,873,147**	**2,944,976**	**3,018,600**	**3,094,065**	**3,171,417**
OTHER INCOME					
Other Income Increase	*0.50%*	*0.50%*	*0.50%*	*0.50%*	*0.50%*
Laundry	0	0	0	0	0
Head Start Lease	8,710	8,753	8,797	8,841	8,885
TOTAL OTHER INCOME	**8,710**	**8,753**	**8,797**	**8,841**	**8,885**
GROSS INCOME	**2,881,857**	**2,953,730**	**3,027,398**	**3,102,907**	**3,180,303**
Vacancy Rate : Section 8	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Vacancy Rate : Affordable	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Less: Vacancy Loss	144,093	147,686	151,370	155,145	159,015
EFFECTIVE GROSS INCOME	**2,737,764**	**2,806,043**	**2,876,028**	**2,947,761**	**3,021,287**
OPERATING EXPENSES					
Annual Expense Increase	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Expenses	1,977,930	2,057,047	2,139,329	2,224,902	2,313,898
Replacement Reserve	84,426	84,426	84,426	84,426	84,426
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Taxes and Assessments	906	924	942	961	980
TOTAL EXPENSES	**2,063,262**	**2,142,397**	**2,224,697**	**2,310,289**	**2,399,305**
NET OPERATING INCOME	**674,503**	**663,646**	**651,330**	**637,472**	**621,983**
DEBT SERVICE					
CHFA - 1st Mortgage	672,183	672,183	672,183	672,183	672,183
CHFA - Bridge Loan					
CASH FLOW after debt service	**2,320**	**(8,537)**	**(20,852)**	**(34,711)**	**(50,200)**
DEBT COVERAGE RATIO - 1st	**1.00**	**0.99**	**0.97**	**0.95**	**0.93**

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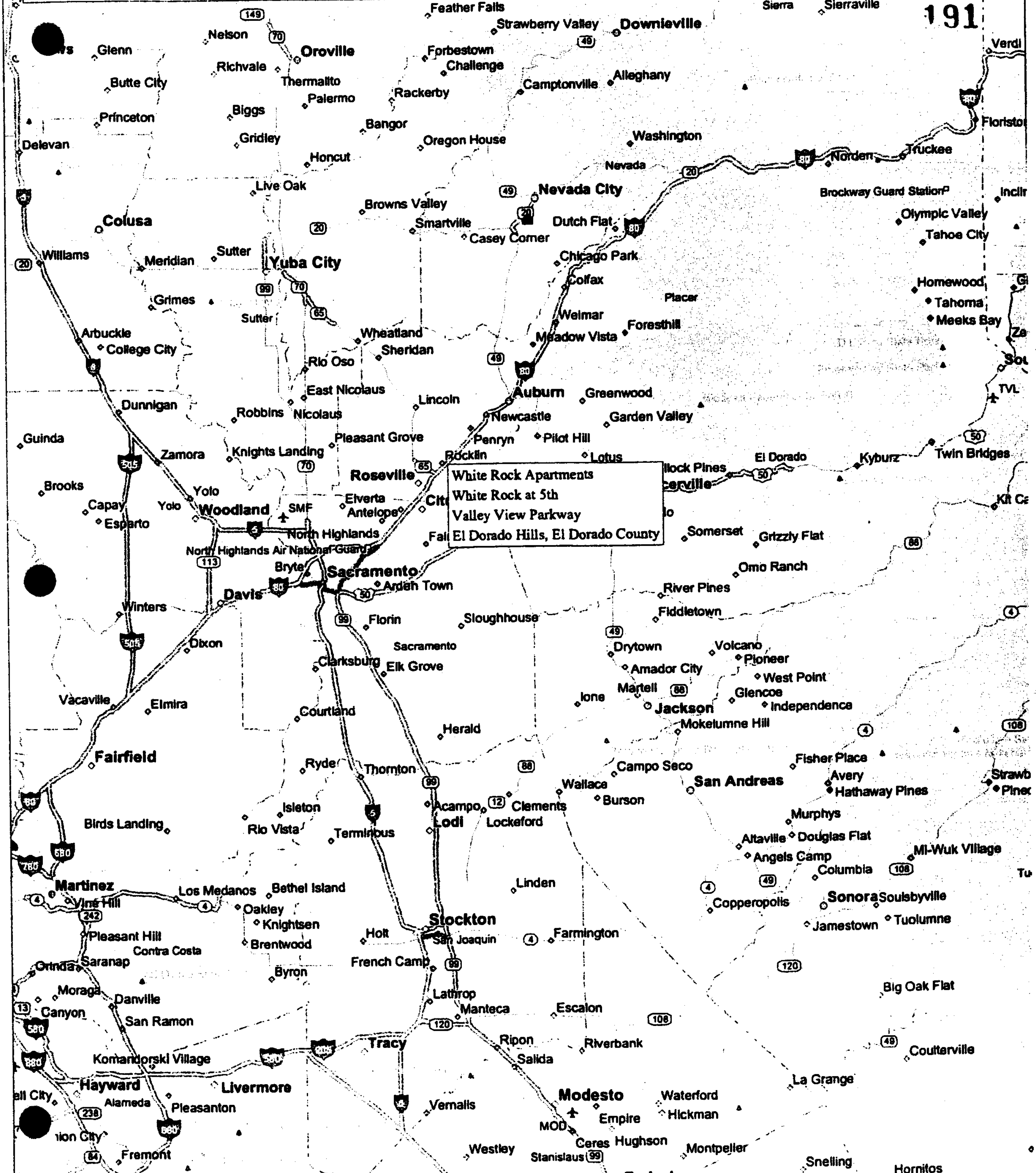

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WHITE ROCK APARTMENTS

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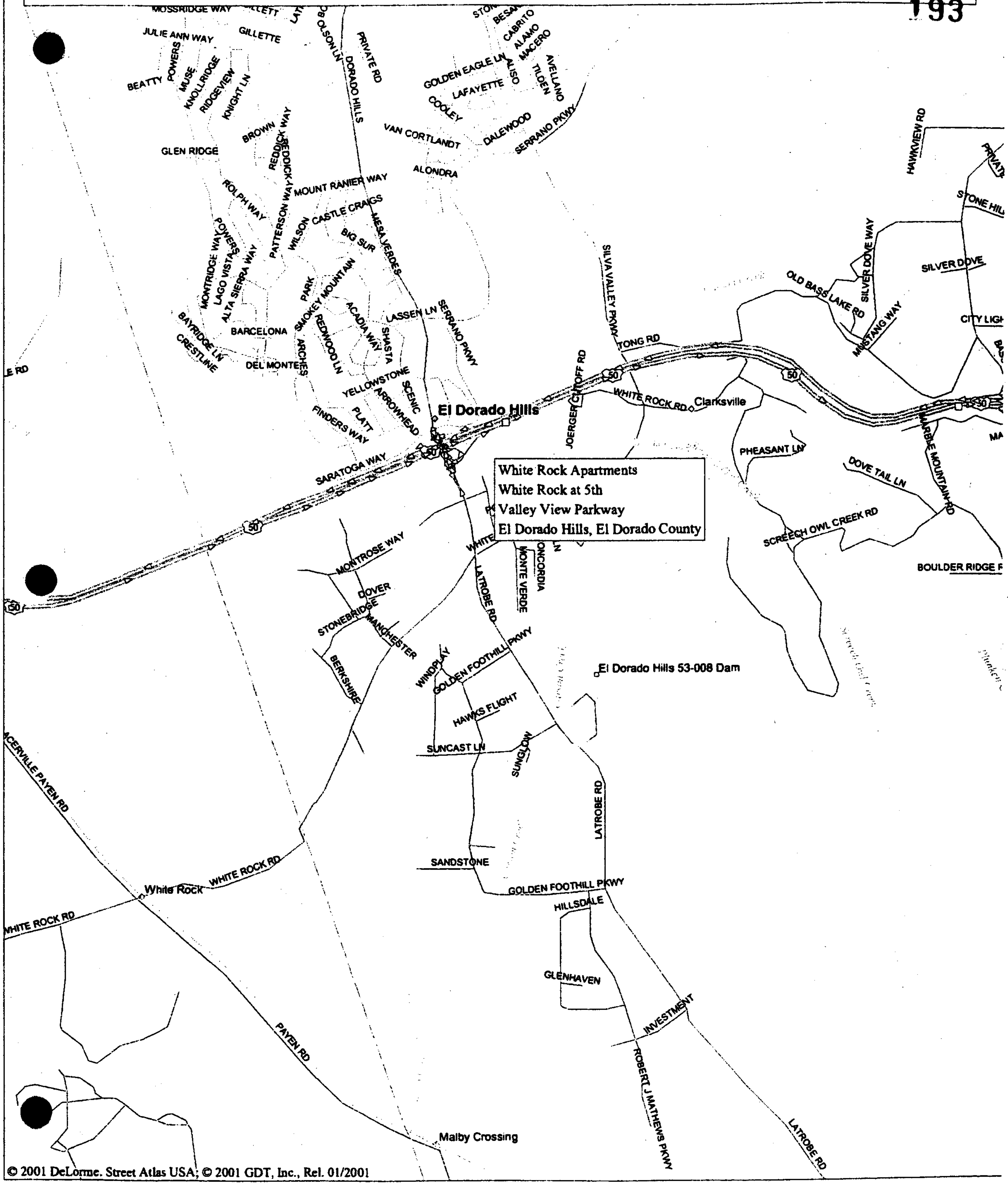

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RESOLUTION 04-17

RESOLUTION AUTHORIZING A FINAL
LOAN COMMITMENT MODIFICATION

WHEREAS, the California Housing Finance Agency (the "Agency") has received a modification request from Mercy Housing California XXI, a California limited partnership (the "Borrower"), seeking an increase of the loan commitment approved by Resolution 02-24 under the Agency's Tax-Exempt Loan Program in the mortgage amount described herein, the proceeds of which are to be used to provide financings for a 168-unit multifamily housing development located in the City of El Dorado Hills to be known as White Rock Village (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which has prepared its report dated June 22, 2004 (the "Staff Report") recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on July 11, 2002, as modified on June 22, 2004, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

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

NOW, THEREFORE, BE IT RESOLVED by the Board:

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to his/her recommended terms and conditions, including but not limited to those set forth in the CalHFA Staff Report, in relation to the Development described above and as follows:

PROJECT NUMBER	DEVELOPMENT NAME/ LOCALITY	NUMBER OF UNITS		MORTGAGE AMOUNT
02-008-N	White Rock Village El Dorado Hills/El Dorado	168	First Mortgage:	$10,000,000
			Second Mortgage:	$ 1,500,000
			Bridge Loan:	$ 3,670,000

2. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to increase the mortgage amount so stated in this resolution by an amount not to exceed seven percent (7%) without further Board approval.

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

I hereby certify that this is a true and correct copy of Resolution 04-17 adopted at a duly constituted meeting of the Board of the Agency held on July 8, 2004, at Sacramento, California.

ATTEST: ____________________
Secretary