

## MEMORANDUM

To: Board of Directors

Date: July 6, 2006



Bruce D. Gilbertson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS  
HOUSING PROGRAM BONDS 2006 SERIES A AND SERIES B

On May 2, 2006, the Agency delivered \$108.2 million of Bonds under the Housing Program Bonds (HPB) Indenture to Citigroup. The bonds were issued as both tax-exempt fixed rate bonds and taxable variable rate demand obligations, with the liquidity provided by LBBW (a new liquidity provider for the Agency.) These bonds were issued in two series, HPB 2006 Series A and HPB 2006 Series B. Additional details of the bonds are outlined in the attached summary.

The Housing Program Bonds indenture was created to provide a vehicle under which we could issue debt to finance either multifamily or single family programs which have terms that are not easily financed under our mainstream single family and multifamily bond indentures. Bonds issued under this new indenture are backed by the Agency's general obligation.

The HPB 2006 Series A were issued to finance downpayment assistance loans originated under the Agency's CHAP and HiCap programs. These loans are structured as deferred payment simple interest loans, accruing interest at 5% and 7%. Proceeds from the sale of the bonds are being used to purchase CHAP and HiCap loans which have been originated using the Agency's PMIA borrowing line.

The HPB 2006 Series B were issued to 1) purchase \$11 million of downpayment assistance loans that were originated over 18-months ago and therefore, not eligible for tax-exempt financing, and 2) to purchase \$50 million of multifamily loans which were assets of the Agency's Housing Assistance Trust (HAT) and the Agency's Revolving Credit line with Bank of America. Securitizing these loans will create liquidity in the HAT for other programmatic purposes while also lowering our borrowing costs.

All principal payments received on the loans during the first ten years of the transaction are expected to be recycled into new CHAP, HiCap or multifamily loans with the additional expectation that principal payments received on the 2006 Series B loans may be recycled into multifamily loans beyond the first ten years. During the first ten years, debt service on the

bonds is expected to be paid from interest revenue on the loans and from transfers of excess revenues from other bond indentures.

Currently, the 2006 Series B bonds are unhedged variable rate bonds. We have plans to hedge a portion of the bonds in the near future using short-term interest rate caps. The amount of bonds to be hedged is determined by the duration of the underlying loans and also by the Agency's strategy to maximize its earnings potential. As the composition of the mortgage pool changes over time, our hedging strategies will incorporate the new loan characteristics.

### SUMMARY OF THE BONDS

BOND SERIES	A	B
<b>Par Amount</b>	\$47,090,000	\$61,110,000
<b>Type of Bonds (Tax-exempt)</b>	FIXED	VRDO
<b>Tax Treatment</b>	AMT	TAXABLE
<b>Maturities</b> \$7,990,000, on \$10,080,000, on \$29,020,000, on \$61,110,000, on	8/1/2021 8/1/2026 8/1/2036	8/1/2036
<b>Credit Rating</b> Moody's S&P	Aa3 AA-	Aa3/VMIG-1 AA-/A-1
<b>Initial Interest Rate</b>	4.75% - 4.95%	5.00%
<b>Liquidity Provider</b>	N/A	LBBW
<b>Insurance Provider</b>	NA	NA
<b>Remarketing Agent</b>	N/A	Citigroup

# AS PROPOSED TO BE AMENDED

AMENDED IN ASSEMBLY JUNE 22, 2006

AMENDED IN ASSEMBLY JUNE 19, 2006

**SENATE BILL**

**No. 257**

**Introduced by Senator Chesbro**

(Principal coauthor: Assembly Member Ridley-Thomas)

February 15, 2005

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An act to *amend Section 50909 of, to add Section 51050.1 to, and to add Chapter 6.3 (commencing with Section 51312) to Part 3 of Division 31 of, the Health and Safety Code, relating to housing and community development.*

#### LEGISLATIVE COUNSEL'S DIGEST

SB 257, as amended, Chesbro. Special needs housing.

Existing law creates the California Housing Finance Fund in the State Treasury, and authorizes the transfer of construction loan funds to the construction lender or to the contractor as necessary to meet draws for progress payments pursuant to rules and regulations of the California Housing Finance Agency. Existing law prescribes the powers and duties of the agency with regard to providing loans and subsidizing housing for persons and families of low or moderate income and authorizes the agency to utilize federal subsidies available to provide housing for those families and persons.

This bill would additionally authorize the agency to make loans to finance affordable housing, including residential structures, housing developments, multifamily rental housing, special needs housing, as defined, and other forms of housing permitted by provisions regulating housing and community development. The bill would authorize the agency, in addition to any other power conferred pursuant to specified laws governing housing and community

development, to issue revenue bonds, in accordance with specified requirements, for the purpose of financing the acquisition, construction, rehabilitation, refinancing, or development of special needs housing, as defined.

*Existing law requires the agency to be administered by a board of directors, and requires the board to determine the compensation for the executive director of the agency. Existing law prohibits the compensation for the executive director to exceed the salary of the Secretary of the Business, Transportation and Housing Agency.*

*This bill would also require the board to determine the compensation for all key exempt management, as prescribed, and would remove the limitation on the executive director's compensation as it relates to the salary of the Secretary of the Business, Transportation and Housing Agency. This bill would require the board to establish the compensation in the agency's annual budget, and would require the Department of Personnel Administration to review the board's methodology in establishing the compensation.*

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     SECTION 1. *The Legislature finds and declares all of the*  
2 *following:*

3     (a) *There is a shortage of housing and related supportive*  
4 *services for persons with special needs, including persons with*  
5 *mental illnesses. These persons are at substantial risk of*  
6 *homelessness. Financing special needs housing is particularly*  
7 *difficult because this housing will not support large amounts of*  
8 *conventional long term debt. The California Housing Finance*  
9 *Agency (CalHFA) has substantial expertise and experience in*  
10 *leveraging conventional financing with other secondary sources*  
11 *of financing, to facilitate the development of affordable housing.*

12     (b) *Financing special needs housing, as well as efficiently*  
13 *leveraging other funds available for this purpose, is complex and*  
14 *involves significant financial risks. CalHFA has the management,*  
15 *financial, and legal expertise to structure the transactions and to*  
16 *manage these risks over a long term. The ability of CalHFA to*  
17 *effectively and efficiently provide this special needs financing*  
18 *requires amendments to the agency's statutes, including clear*

1 authority for the agency to issue bonds to raise capital for  
2 tax-exempt and taxable loans to finance special needs projects.

3 (c) The provision of additional financing through CalHFA  
4 provides significant advantages to the state. CalHFA is  
5 financially independent from the State of California. Its bond  
6 obligations are not a debt or liability of the state, nor does it  
7 require a pledge of the full faith and credit of the state. CalHFA  
8 is a self-supporting entity, and raises all of its capital from  
9 private investors through the issuance of bonds.

10 (d) CalHFA's high quality credit rating depends in significant  
11 part on ratings agency and investor confidence in the ability of  
12 the management of the agency. Credit ratings agencies evaluate  
13 the expertise and effectiveness of CalHFA management in  
14 connection with the agency's issuer credit rating. CalHFA's  
15 current issuer rating specifically recognizes that CalHFA has  
16 experienced significant difficulty in attracting and retaining key  
17 management personnel as a result of compensation that is  
18 significantly less than is offered by other comparable housing  
19 finance agencies. The continued ability of the agency to meet its  
20 duties to bondholders, to maintain its high credit rating, and to  
21 manage the risk of complex real estate finance transactions such  
22 as those contemplated in this act, depends substantially on the  
23 ability of the agency to attract and retain key executive  
24 management over the long term.

25 (e) CalHFA must operate as a professional, self-supporting  
26 financial institution. Each fiscal year, the CalHFA Board of  
27 Directors (board) of the agency enacts a business plan, including  
28 an operating budget containing salaries. This act enables the  
29 board to attract and retain key personnel by clarifying the  
30 board's authority to establish compensation for key executive  
31 and management positions. This compensation will be  
32 competitive with that of other comparable state and local  
33 housing finance entities, according to salary survey methodology  
34 reviewed by the Department of Personnel Administration.

35 SEC. 2. Section 50909 of the Health and Safety Code is  
36 amended to read:

37 50909. ~~The~~(a) Notwithstanding Sections 19816 and 19825  
38 of the Government Code, the compensation of key exempt  
39 management, including the executive director, the chief deputy  
40 director, the general counsel, the director of financing, the

1 *director of homeownership programs, the director of multifamily*  
2 *programs, the director of insurance and the financial risk*  
3 *management director shall be established by the board in the*  
4 *agency's annual budget, in an amount amounts which is are*  
5 *reasonably necessary, in the discretion of the board, to attract and*  
6 *hold a person of superior qualifications. However, the salary of*  
7 *the executive director shall not exceed the salary of the Secretary*  
8 *of the Business, Transportation and Housing Agency. Members*  
9 *To determine the compensation for the positions described in this*  
10 *section, the agency shall conduct salary surveys of both of the*  
11 *following:*

12 *(1) Other state and local housing finance agencies that are*  
13 *most comparable to CalHFA.*

14 *(2) Other relevant labor pools.*

15 *(b) The Department of Personnel Administration shall review*  
16 *the methodology used in these salary surveys.*

17 *(c) Members of the board shall not receive a salary but shall be*  
18 *entitled to a per diem allowance of one hundred dollars (\$100)*  
19 *for each day's attendance at a meeting of the board or a meeting*  
20 *of a committee of the board, not to exceed three hundred dollars*  
21 *(\$300) in any month, and reimbursement for expenses incurred in*  
22 *the performance of their duties under this part, including travel*  
23 *and other necessary expenses.*

24 ~~SECTION 1.~~

25 *SEC. 3. Section 51050.1 is added to the Health and Safety*  
26 *Code, to read:*

27 *51050.1. The agency may make loans to finance affordable*  
28 *housing, including residential structures, housing developments,*  
29 *multifamily rental housing, special needs housing, and other*  
30 *forms of housing permitted by this part.*

31 ~~SEC. 2.~~

32 *SEC. 4. Chapter 6.3 (commencing with Section 51312) is*  
33 *added to Part 3 of Division 31 of the Health and Safety Code, to*  
34 *read:*

35

36 **CHAPTER 6.3. SPECIAL NEEDS HOUSING**

37

38 *51312. (a) The primary purpose of this chapter is to provide*  
39 *an additional method of financing special needs housing.*

1 (b) (1) For purposes of this chapter, "special needs housing"  
2 means any housing, including supportive housing, intended to  
3 benefit, in whole or in part, persons identified as having special  
4 needs relating to any of the following:

5 (A) Mental health ~~or physical disabilities.~~

6 ~~(B) The risk of homelessness.~~

7 ~~(C) Identified any similar related special housing need.~~

8 (2) Special needs housing shall also include housing intended  
9 to meet the housing needs of persons eligible for mental health  
10 services funded in whole or in part by the Mental Health Services  
11 Fund, created by Section 5890 of the Welfare and Institutions  
12 Code.

13 51313. The exercise of the powers granted by this chapter  
14 shall be in all respects for the benefit of the people of this state  
15 and for their health and welfare. Therefore, any bonds issued by  
16 the agency, pursuant to this chapter, their transfer, and the  
17 income therefrom shall at all times be free from taxation by the  
18 state or any political subdivision or other instrumentality of the  
19 state, excepting inheritance and gift taxes.

20 51314. Subject only to the limitations of this chapter, the  
21 agency may, in addition to any other power conferred by this  
22 part, issue revenue bonds as provided in Chapter 7 (commencing  
23 with Section 51350) for the purpose of financing the acquisition,  
24 construction, rehabilitation, refinancing, or development of  
25 special needs housing, and for the provision of capital  
26 improvements in connection with, and determined necessary to,  
27 such housing.

28 51315. Subject only to the limitations prescribed in this  
29 chapter, the agency, in addition to any other power conferred by  
30 this part with respect to housing, may make or undertake  
31 commitments to make loans to finance the acquisition,  
32 construction, rehabilitation, refinancing, or development of  
33 special needs housing. For this purpose, the agency may enter  
34 into regulatory contracts and other agreements with the owners or  
35 operators of that housing to ensure compliance with this chapter.

36 ~~51316. Subject only to the limitations prescribed in this~~  
37 ~~chapter and the projected availability of grant or other revenues~~  
38 ~~to repay any revenue bonds issued pursuant to this chapter, the~~  
39 ~~agency, in addition to any other power conferred by this part with~~  
40 ~~respect to housing, may make or undertake commitments to~~

Insert:

(B) Physical disabilities

(c) Developmental disabilities, such as mental retardation, cerebral palsy, epilepsy and autism

(D) The risk of homelessness.

delete this paragraph

1 ~~make grants to pay the costs of the acquisition, construction,~~  
 2 ~~rehabilitation, refinancing, or development of special needs~~  
 3 ~~housing. For this purpose, the agency may enter into regulatory~~  
 4 ~~contracts and other agreements with the owners or operators of~~  
 5 ~~the housing to ensure compliance with this chapter.~~

6 ~~51317.~~ Subject only to the limitations prescribed in this  
 7 chapter, the agency, in addition to any other power conferred by  
 8 this part, may purchase, or undertake, directly or indirectly  
 9 through lending institutions, commitments to purchase,  
 10 construction loans, mortgage loans, or other types of loans  
 11 originated in accordance with a financing agreement with the  
 12 agency to finance the acquisition, construction, rehabilitation,  
 13 refinancing, or development of special needs housing, and for the  
 14 provision of capital improvements in connection with, and  
 15 determined necessary to, such housing.

16 ~~51318.~~ For the purposes of this chapter, the agency shall have  
 17 the power to issue its bonds to defray, in whole or in part, the  
 18 costs of studies and surveys, insurance premiums, underwriting  
 19 fees, legal, accounting and marketing services incurred in  
 20 connection with the issuance and sale of bonds, including bond  
 21 and operating reserve accounts, trustee, custodian, and rating  
 22 agency fees, and such other costs as are reasonably related to the  
 23 foregoing.

51317

24 ~~51319.~~ This chapter constitutes a complete, additional, and  
 25 alternative method to issue bonds to finance the costs of special  
 26 needs housing.

51318

RESOLUTION 06-15

RESOLUTION APPROVING AUDIT COMMITTEE CHARTER

WHEREAS, the California Housing Finance Agency (the "Agency") is required by law to have audited financial statements of both the California Housing Finance Fund, and the California Housing Loan Insurance Fund, and

WHEREAS, on January 12, 2006, the Board of Directors adopted Resolution 06-08, authorizing the creation of an audit committee of the Board; and

WHEREAS, the Chairman of the Board named Director Jack Shine as the Chairman of the audit committee, and Directors Carol Galante and Peter Carey as the additional members of the committee, as authorized by the terms of resolution 06-08; and

WHEREAS, the members of the committee and the staff of the Agency have developed a proposed charter for the committee;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The attached "Audit Committee Charter-May 2006" is hereby adopted by the Board.

I hereby certify that this is a true and correct copy of Resolution 06-15 adopted at a duly constituted meeting of the Board of Directors of the Agency held on July 7, 2006, at Sacramento, California.

ATTEST: \_\_\_\_\_  
Secretary

**CALIFORNIA HOUSING FINANCE AGENCY**  
**AUDIT COMMITTEE CHARTER**  
**May, 2006**

**MISSION**

The Audit Committee of the Board of Directors of the Agency will assist the Board of Directors in fulfilling its oversight responsibilities in the area of financial reporting and accounting integrity. In performing its duties, the Audit Committee will maintain effective working relationships with the Board of Directors, with Agency executive management and staff, and with the Agency's independent auditors. The Audit Committee has the authority to conduct any review appropriate to fulfilling its responsibilities. The committee will have direct access to independent auditors, as well as anyone in the organization.

**COMPOSITION**

The Audit Committee will be comprised of no less than three voting members of the Board, to be selected by the Chairman of the Board to serve on a rotational basis with staggered terms.

**AUTHORITY**

The Audit Committee has certain limited powers delegated to it by Board Resolution 06-08, and will act in an advisory capacity to the Board concerning audits and related financial matters. Management, staff and the independent auditor will serve as a resource to Committee in their understanding of the Agency's financial reporting responsibilities and any significant issues related to financial reporting and accounting policies. All employees of the Agency are directed to cooperate as requested by members of the Committee.

**MEETING**

The Audit Committee will meet at least twice per year. The committee will also report to the full Board, at a regular meeting of the Board of Directors at least once a year, on the audit process and results of such audits. All meetings of the committee shall be open public meetings subject to the same notice and agenda procedures as are regular meetings of the Board. Agency staff will serve as staff to the committee.

**MINUTES**

Minutes of each meeting will be prepared and sent to all members of the Board. The committee minutes need not be verbatim. Minutes of meetings are public records unless exempted under the California Public Records Act or other applicable law.

## **DUTIES**

The Audit Committee will conduct its oversight activities by:

1. Periodically reviewing with the assistance of Agency management, staff and independent auditors the Agency's policies and procedures. Part of this review shall include the direct inquiry of management and independent auditors about the significant risks or exposures and the steps management has taken to minimize such risk to the Agency.
2. Review with the staff and independent auditor the scope and general extent of the independent auditor's examination. The Audit Committee's review shall include an understanding from the independent auditor of the factors considered in determining the audit scope, including:
  - a. Industry and business risk characteristics of the Agency
  - b. External reporting requirements
  - c. Materiality of the various segments of the Agency's activities
  - d. Quality of the Agency's internal control structure
  - e. Other areas to be covered during the audit engagement
3. Review with the Agency's management, staff and independent auditors, upon the completion of their audit, financial results for the year. This Committee shall:
  - a. Review the Agency's annual financial statements and the opinion of the independent auditors;
  - b. Discuss with management, staff and independent auditors any current accounting and reporting issues, including recent professional and regulatory pronouncements – Agency management and staff shall have the duty to inform Committee members of significant relevant issues and developments in accounting and financial reporting;
  - c. Discuss with Agency management, staff and the independent auditor any significant changes from preceding years;
  - d. Review the adequacy of disclosure of significant items;
  - e. Discuss with Agency management, staff and the independent auditor the effect on financial statements of any proposed or implemented changes in accounting policies initiated by the Agency, independent auditors or pronouncements of standard boards or governmental authorities
  - f. Presentation of financial statements
  - g. Report to the Board any illegal, improper or sensitive transactions that have come to the attention of the Committee through information received by management, staff or the independent auditor or by any other means;
  - h. Review significant adjustments proposed by the independent auditors.
4. Review all management letter items from the independent auditor and the written responses from management about each comment or finding. Discuss with the

independent auditors the level of professional competence of the Agency's financial and accounting personnel, and any relevant recommendations, which the auditors may have.

5. Recommend to the Board of Directors any appropriate changes in the duties of the Committee. Review and update the Committee's charter annually.
6. Review the Agency's selection process in obtaining a multi-year auditing services contract with an independent auditor.
7. Review legal and regulatory matters that may have a material impact on the financial statements and related compliance policies and programs.
8. Review with management the Agency's Conflict of Interest/Code of Ethics policy and the Agency's system of enforcing the policy.

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RESOLUTION 06-08

RESOLUTION APPROVING CREATION OF AUDIT COMMITTEE

WHEREAS, the California Housing Finance Agency (the "Agency") is required by law to have audited financial statements of both the California Housing Finance Fund, and the California Housing Loan Insurance Fund, and

WHEREAS, the staff of the Agency has recognized that both corporate and public boards are playing an increasingly direct role in the oversight of auditors and audited financial statements; and

WHEREAS, the staff of the Agency has recommended that the Board create an audit committee for the purpose of providing the Board with direct involvement with auditors in connection with the preparation and review of such financial statements, as well as the retention of auditors by the Agency; and

WHEREAS, the Board of Directors of the Agency recognizes that having a direct role in the audit process will constitute a sound financial practice that will assist both the auditors and staff in the preparation and review of the audits, and benefit the Board and the Agency generally;

WHEREAS, the Board has determined that the best method of providing such a role would be through the creation of an audit committee consisting of three voting members of the Board of Directors, to which the Board would delegate the authority to develop policies and procedures relating to the retention of auditors by the Agency, and which would otherwise act in an advisory capacity to the Board concerning audits and related financial matters;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. There is hereby created an audit committee of the Board of Directors, consisting of three voting members of the Board, to be selected by the Chairman of the Board annually or as otherwise required to fill vacancies.

2. The audit committee shall generally be advisory to the full Board of Directors, provided, however, that the Board delegates to the audit committee the

1 authority to create any internal procedures regarding the selection and retention of  
2 auditors that the committee may deem appropriate.

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4 3. The role of the audit committee shall be to meet with Agency staff and  
5 outside auditors as necessary or desirable, to (i) develop any procedures necessary or  
6 helpful in connection with the selection and retention of auditors; (ii) facilitate audits  
7 of the Agency; (iii) review the scope of audits and any issues relating to such audits;  
8 and (iv) to review proposed audit findings and other related financial issues. The  
9 committee shall report to the full Board, at a regular meeting of the Board of Director  
10 at least once a year , on the audit process and the results of such audits; and may take  
11 such other actions as the Board may direct at such Board meetings .

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13 4. All meetings of the audit committee shall be open public meetings.

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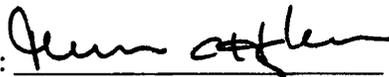
15 I hereby certify that this is a true and correct copy of Resolution 06-08 adopted at a  
16 duly constituted meeting of the Board of Directors of the Agency held on January 12,  
17 2006, at Millbrae, California.

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ATTEST:   
Secretary

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**Board of Directors Meeting held on March 9, 2006**

1 Assistance Trust funds. And at the end of the day, for  
2 the Board, this is really your decision-making process,  
3 because the production levels in those different programs  
4 will fall out, depending on what you do here.

5 So we are -- and we're trying this last year to  
6 discipline ourselves, and holding ourselves to the  
7 \$65 million, so that we manage the amount of money that  
8 we're taking out of our indentures on a planned stream;  
9 that we don't use any one of any great amount in any  
10 given one year, and then not have that in an upcoming  
11 year, or more heavily rely on increased profitability  
12 that may or may not come.

13 So what we're trying to do here is, given the  
14 additional information that we have been able to do  
15 through this analysis, looking at profitability and also  
16 what we want to achieve from a public benefit stand, we  
17 have come back and made our recommendations to you here.

18 And we will talk through, if the Board decides  
19 to adopt this strategy and/or wants to make some changes  
20 to it, what we think that that may mean from the  
21 productions that will follow this.

22 So I am just going to go through and give you  
23 some sense of what this actually means in the  
24 productions.

25 We're proposing to have about \$35 million be

**Board of Directors Meeting held on March 9, 2006**

1 available for Down Payment Assistance.

2 Now, two years ago, the Agency spent almost  
3 \$85 million of Housing Assistance Trust fund and Down  
4 Payment Assistance to do about \$1.2 billion with  
5 single-family production.

6 We decided that we just could not maintain  
7 that amount of resources, of scarce Housing Assistance  
8 Trust funds for Down Payment Assistance. And that's why  
9 the last year we made some changes in some of the  
10 single-family products that we did. We moved to an IO,  
11 35-year loan product; and our regular 30-year product  
12 being 100 percent loan, so that the Down Payment  
13 Assistance or Prop. 46 could be on top of that.

14 But Agency funds for Down Payment Assistance  
15 wouldn't be used to the extent that it was in the past.  
16 So these -- we'll talk about what these are specifically  
17 to be utilized in production in high-cost areas.

18 But we were able to discipline ourselves, and  
19 even with that, increase our housing production. That  
20 allowed us to be able to put more Housing Assistance  
21 Trust funds into some of the programs in the Multifamily  
22 area, which we started last year: Habitat For Humanity  
23 programs. Continuing to fund our HELP program at a  
24 \$20 million level. Continuing to have a special business  
25 development program. And more importantly also, put a

**Board of Directors Meeting held on March 9, 2006**

1 a refocus of our capacity to better serve what we believe  
2 is our targeted group.

3 So with that, if there are any questions on the  
4 homeownership side, insurance side, we're prepared to  
5 answer.

6 Mr. Morris?

7 MR. MORRIS: Yes, on the home mortgage products,  
8 you said about 38 percent are the *interest only* PLUS  
9 product. Maybe you can just go through your asset  
10 allocation of how you envision where we see 1.5 billion  
11 in new products this year. What would be the major loan  
12 programs that you think would be the most successful,  
13 or --

14 MR. SMART: Going forward, I would think that  
15 the *interest only* PLUS would represent about 40 to  
16 45 percent of our total loan production, of the 1.5.

17 The 30-year fixed-rate mortgage would  
18 probably -- in this coming fiscal year -- represent about  
19 45 percent as well, or maybe 50 percent, and the  
20 remaining balance would be the new 40. That's, you know,  
21 just --

22 MR. MORRIS: How will that work out?

23 MR. SMART: It's quite early right now to make  
24 any intelligent guess as to what we're going to take in.  
25 But I think it will probably be overall --

**Board of Directors Meeting held on March 9, 2006**

1 MR. MORRIS: So the *interest only* and the  
2 30-year are about equal in popularity right now?

3 MR. SMART: I would say so, yes.

4 MS. PARKER: Okay, thank you both, gentlemen.

5 Let me introduce our Multifamily team and have  
6 them come up and do their presentation on our Multifamily  
7 production goals; and that will not only be Multifamily,  
8 but also special lending.

9 MS. FRETZ-BROWN: Beverly Fretz-Brown, interim  
10 director, Multifamily.

11 The production goals for next year were being  
12 quite ambitious; and we'll fill you in, in terms of why  
13 we think we can make it.

14 As you see there, the total production we're  
15 hoping for is about 320 million; and that includes the  
16 Bay Area Housing Plan, of those figures. But even with  
17 or without the Bay Area Housing Plan, that represents  
18 about a 38 percent increase over this year, over our  
19 expected new final commitments.

20 As you recall from the midyear meeting, the  
21 Multifamily division this year has been concentrating on  
22 closings. And by the end of this fiscal year, we will  
23 have closed approximately 450 million dollars' worth of  
24 loans. It's been an incredible effort. It's three times  
25 the number of closings of last year. And last year was

# Financing Reports

- Recent Bond Sales and Swaps
  - Multifamily Bonds
  - Housing Program Bonds
- Variable Rate Bonds and Swaps

# Recent Bond Issues

<u>Date of Sale</u>	<u>Bond Series</u>	<u>\$ Amount</u>
4/12/06	Housing Program Bonds 2006 Series A & B	\$108,200,000
6/9/06	Multifamily Housing Revenue Bonds III 2006 Series A	\$76,915,000

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# **New Housing Program Bonds**

- **\$108.2 M HPB, 2006AB**
  - **\$47 M tax-exempt, fixed-rate**
  - **\$61 M taxable, variable rate demand obligations**
  - **Finance downpayment assistance and multifamily loans**
  - **Backed by Agency's general obligation**
-

# New Multifamily Bonds

- **\$76.9 M MFHRB III, 2006 A**
- **All tax-exempt**
- **Variable rate demand obligations**
  - **\$22 M swapped to fixed rate**
- **Funding for 8 new projects**



# **Report on Variable Rate Bonds and Swaps**



# Variable Rate Debt as of June 15, 2006

(\$ in Millions)

	Tied Directly to Variable <u>Rate Assets</u>	Swapped to <u>Fixed Rate</u>	Not Swapped or Tied to Variable <u>Rate Loans</u>	Total Variable <u>Rate Debt</u>
HMRB	\$ 3	\$ 3,902	\$ 516	\$ 4,421
MHRB	282	864	122	1,268
HPB	0	35	76	111
DDB	<u>899</u>	<u>0</u>	<u>0</u>	<u>899</u>
<b>TOTALS</b>	<b>\$1,184</b>	<b>\$ 4,801</b>	<b>\$ 714</b>	<b>\$ 6,699</b>

# Types of Variable Rate Debt

( \$ in Millions )

	Auction Rate & Similar <u>Securities</u>	Indexed Rate <u>Bonds</u>	Variable Rate Demand <u>Obligations</u>	Total Variable <u>Rate Bonds</u>
HMRB	\$ 165	\$ 1,133	\$ 3,123	\$ 4,421
MHRB	485	0	783	1,268
HPB	0	0	111	111
DDB	<u>0</u>	<u>899</u>	<u>0</u>	<u>899</u>
<b>TOTALS</b>	<b>\$ 650</b>	<b>\$ 2,032</b>	<b>\$ 4,017</b>	<b>\$ 6,699</b>

# Fixed Payer Interest Rate Swaps

*(\$ in Millions)*

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
HMRB	\$3,059	\$927	\$3,986
MHRB	864	0	864
HPB	<u>35</u>	<u>0</u>	<u>35</u>
<b>TOTALS</b>	<b>\$3,958</b>	<b>\$927</b>	<b>\$4,885</b>

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## MEMORANDUM

**To:** Board of Directors

**Date:** July 6, 2006



Bruce D. Gilbertson, Director of Financing

**From:** CALIFORNIA HOUSING FINANCE AGENCY

**Subject:** REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS  
HOUSING PROGRAM BONDS 2006 SERIES A AND SERIES B

On May 2, 2006, the Agency delivered \$108.2 million of Bonds under the Housing Program Bonds (HPB) Indenture to Citigroup. The bonds were issued as both tax-exempt fixed rate bonds and taxable variable rate demand obligations, with the liquidity provided by LBBW (a new liquidity provider for the Agency). These bonds were issued in two series, HPB 2006 Series A and HPB 2006 Series B. Additional details of the bonds are outlined in the attached summary.

The Housing Program Bonds indenture was created to provide a vehicle under which we could issue debt to finance either multifamily or single family programs which have terms that are not easily financed under our mainstream single family and multifamily bond indentures. Bonds issued under this new indenture are backed by the Agency's general obligation.

The HPB 2006 Series A were issued to finance downpayment assistance loans originated under the Agency's CHAP and HiCap programs. These loans are structured as deferred payment simple interest loans, accruing interest at 5% and 7%. Proceeds from the sale of the bonds are being used to purchase CHAP and HiCap loans which have been originated using the Agency's PMIA borrowing line.

The HPB 2006 Series B were issued to 1) purchase \$11 million of downpayment assistance loans that were originated over 18-months ago and therefore, not eligible for tax-exempt financing, and 2) to purchase \$50 million of multifamily loans which were assets of the Agency's Housing Assistance Trust (HAT) and the Agency's Revolving Credit line with Bank of America. Securitizing these loans will create liquidity in the HAT for other programmatic purposes while also lowering our borrowing costs.

All principal payments received on the loans during the first ten years of the transaction are expected to be recycled into new CHAP, HiCap or multifamily loans with the additional expectation that principal payments received on the 2006 Series B loans may be recycled into multifamily loans beyond the first ten years. During the first ten years, debt service on the

bonds is expected to be paid from interest revenue on the loans and from transfers of excess revenues from other bond indentures.

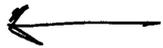
Currently, the 2006 Series B bonds are unhedged variable rate bonds. We have plans to hedge a portion of the bonds in the near future using short-term interest rate caps. The amount of bonds to be hedged is determined by the duration of the underlying loans and also by the Agency's strategy to maximize its earnings potential. As the composition of the mortgage pool changes over time, our hedging strategies will incorporate the new loan characteristics.

### SUMMARY OF THE BONDS

BOND SERIES	A	B
<b>Par Amount</b>	\$47,090,000	\$61,110,000
<b>Type of Bonds (Tax-exempt)</b>	FIXED	VRDO
<b>Tax Treatment</b>	AMT	TAXABLE
<b>Maturities</b> \$7,990,000, on \$10,080,000, on \$29,020,000, on \$61,110,000, on	8/1/2021 8/1/2026 8/1/2036	8/1/2036
<b>Credit Rating</b> Moody's S&P	Aa3 AA-	Aa3/VMIG-1 AA-/A-1
<b>Initial Interest Rate</b>	4.75% - 4.95%	5.00%
<b>Liquidity Provider</b>	N/A	LBBW
<b>Insurance Provider</b>	NA	NA
<b>Remarketing Agent</b>	N/A	Citigroup

BAY AREA HOUSING PLAN - List of Properties and Current Status

BAY AREA HOUSING PLAN		List of Properties													
#	Properties Address	Board Comm. 09/01/05	Board Comm. 01/06/06	Agency Status	Estimated Purchase	NPO RC	Property Type	Purchase Price	Rehab Estimate	Reserve Add Collateral 5%	Reserve 1 Yr DS 7.60%	Appraisal	LTV	LTV minus DS Reserve	LTV minus all reserves
1	1529 Eden	\$ 1,821,000		4.2 Approval	06/24/06	BAHC -SARC	FTM Duplex	\$ 875,000	\$ 364,624	\$ 91,050	\$ 207,579	\$ 875,000	208%	184%	174%
2	1320 Baywood	\$ 2,008,000		4.2 Approval	07/06/06	BAHC -SARC	962 Med	\$ 925,000	\$ 415,941	\$ 100,400	\$ 228,895	\$ 925,000	217%	192%	181%
3	227 Prague	\$ 1,689,000		4.2 Approval	07/10/06	WBHC-GGRC	SRH	\$ 771,000	\$ 367,325	\$ 84,450	\$ 192,532	\$ 790,000	214%	189%	179%
4	5508 Jasmine	\$ 1,686,000		Pre approval	07/26/06	HCEB-RCEB	SRH	\$ 803,000	\$ 363,000	\$ 84,300	\$ 192,190	\$ 815,000	207%	183%	173%
5	506 & 508 Northlake Dr.	\$ 1,804,000			07/24/06	BAHC -SARC	FTM Duplex	\$ 820,000	\$ 418,740	\$ 90,200	\$ 205,641	\$ 820,000	220%	195%	184%
6	629 & 631 Vasona	\$ 1,804,000			07/28/06	BAHC -SARC	FTM Duplex	\$ 860,000	\$ 353,828	\$ 90,200	\$ 205,641	\$ 860,000	210%	186%	175%
7	637 & 639 Vasona	\$ 1,791,000			07/28/06	BAHC -SARC	FTM Duplex	\$ 860,000	\$ 349,899	\$ 89,550	\$ 204,159	\$ 860,000	208%	185%	174%
8	625 & 627 Vasona	\$ 1,787,000			07/28/06	BAHC -SARC	FTM Duplex	\$ 860,000	\$ 351,456	\$ 89,350	\$ 203,703	\$ 860,000	208%	184%	174%
9	14239 Mulberry	TBD			08/18/06	BAHC -SARC	962 Med								
10	Pierce	TBD				WBHC-GGRC									
11															
12															
13															
14															
Commitment Remaining to date		\$19,482,000	\$20,000,000												
Total CAHFA Approvals to date		5,518,000													
Total Proposals before the Agency		14,390,000													
BANK 10% Safety Factor		15,829,000													
Commitment Remaining if 1st 9 fund		9,171,000													





Activity ID	Description	Duration	Start	Finish
<b>Facility No.10 (FTH) - 1527 &amp; 1529 Eden Ave.</b>				
02000	Submit Offer & Accepted	1	04/18/06	04/19/06
02000	Facility No.10 (FTH) - 1527 & 1529 Eden Ave.	158 *	04/27/06	10/03/06
02010	NPO Identifies Property	0	04/27/06	
02020	Site Visit No.1	2	04/27/06	05/01/06
02030	Contingency Period	23 *	05/01/06	05/24/06
02040	Expedited Request Form (ERF)	1	05/01/06	05/02/06
02060	Schedule Due Diligence	2	05/01/06	05/03/06
02070	Schedule Steering Committee	2	05/01/06	05/03/06
02080	Place Deposit	3	05/01/06	05/04/06
02090	Submit Initial Proposal to SC	2	05/03/06	05/05/06
02100	SC Approves/Rejects Initial Proposal	1	05/05/06	05/09/06
02110	Initial Proposal Approved	0		05/09/06
02120	HG to Order Appraisal	4	05/09/06	05/12/06
02130	HG to Upload Seller Disclosures	3	05/09/06	05/11/06
02140	Site Visit No. 2	5	05/09/06	05/13/06
02150	Due Diligence Reports Complete	0		05/13/06
02160	Submit DD Reports to HG	1	05/13/06	05/14/06
02170	Review FLG Prelim Budget	1	05/13/06	05/14/06
02180	NPO to Upload DD Reports to Intalink	1	05/14/06	05/15/06
02190	Site Visit No. 3	4	05/14/06	05/18/06
02200	FLG Submit Final Budget to HG	1	05/18/06	05/19/06
02210	Submit Final Proposal	1	05/19/06	05/20/06
02220	SC Approval of Final Proposal	3	05/20/06	05/23/06
02230	CalHFA Approval of Final Proposal	5	05/22/06	05/26/06
02240	BdFA Approval of Final Proposal	5	05/22/06	05/26/06
02250	Escrow Non-Refundable	1	05/23/06	05/24/06
02270	Escrow Closing Period	31	05/24/06	06/24/06
02280	Design	8	05/24/06	06/01/06
02260	Final Proposal Approval	0		05/26/06
02290	Bid	6	06/01/06	06/07/06
02300	Close of Escrow	0		06/24/06
02310	Construction	100	06/24/06	10/03/06
02320	Certificate of Occupancy	0		10/03/06

(FTH) - 1636 Edsel Ave. -REJECTED

Start date 04/01/06 10:00AM  
 Finish date 08/07/07 9:59AM  
 Run date 07/04/06 8:00PM  
 Page number 2A  
 Page count 11A

**Hallmark Group**  
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**BAHP Master Schedule**  
 Filter: Current Property

Last Updated: July 4, 2006

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Activity ID	Description	Duration	Start	Finish	2006											
					APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
					02	09	16	23	30	07	14	21	28	04	11	18
					[FTH] - 1636 Edsall Ave.											
03000	[FTH] - 1636 Edsall Ave.	54 *	04/16/06	06/09/06												
03010	NPO Identifies Property	0	04/16/06													
03020	Site Visit No. 1	2	04/17/06	04/19/06												
03040	Expedited Request Form (ERF)	1	04/19/06	04/19/06												
03050	Submit Offer & Accepted	1	04/19/06	04/19/06												
03060	Schedule Due Diligence	2	04/20/06	04/21/06												
03070	Schedule Steering Committee	2	04/20/06	04/21/06												
03080	Place Deposit	3	04/20/06	04/24/06												
03090	Submit Initial Proposal to SC	2	04/22/06	04/23/06												
03100	SC Approves/Rejects Initial Proposal	1	04/24/06	04/24/06												
03110	Initial Proposal Approved	0		04/24/06												
03120	HG to Order Appraisal	4	04/25/06	04/29/06												
03130	HG to Upload Seller Disclosures	3	04/25/06	04/27/06												
03140	Site Visit No. 2	5	04/25/06	04/29/06												
03150	Due Diligence Reports Complete	0		04/29/06												
03160	Submit DD Reports to HG	1	04/30/06	04/30/06												
03170	Review FLG Prelim Budget	1	04/30/06	04/30/06												
03180	HG to Upload DD Reports to Intranet	1	05/01/06	05/01/06												
03190	Site Visit No. 3	4	05/01/06	05/04/06												
03200	FLG Submit Final Budget to HG	1	05/05/06	05/05/06												
03205	Seller Rejected Counter Offer	0		06/09/06												
<b>Facility No. 11 (FTH) - 629 &amp; 631 Vasona Ave.</b>																
04000	Facility No. 11 (FTH) - 629 & 631 Vasona Ave.	203 *	04/16/06	11/05/06												
04010	NPO Identifies Property	0	04/16/06													
04020	Site Visit No. 1	2	04/17/06	04/18/06												
04030	Contingency Period	73 *	04/19/06	06/30/06												
04040	Expedited Request Form (ERF)	1	04/19/06	04/19/06												
04050	Submit Offer & Accepted	1	04/19/06	04/19/06												
04060	Schedule Due Diligence	2	04/20/06	04/21/06												
04070	Schedule Steering Committee	2	04/20/06	04/21/06												
04080	Place Deposit	3	04/20/06	04/24/06												
04090	Submit Initial Proposal to SC	44	04/22/06	06/04/06												
04100	SC Approves/Rejects Initial Proposal	2	06/05/06	06/06/06												
04110	Initial Proposal Approved	0		06/06/06												
04120	HG to Order Appraisal	4	06/07/06	06/10/06												

**BAHP Master Schedule**  
 Filter: Current Property  
 Last Updated: July 4, 2006

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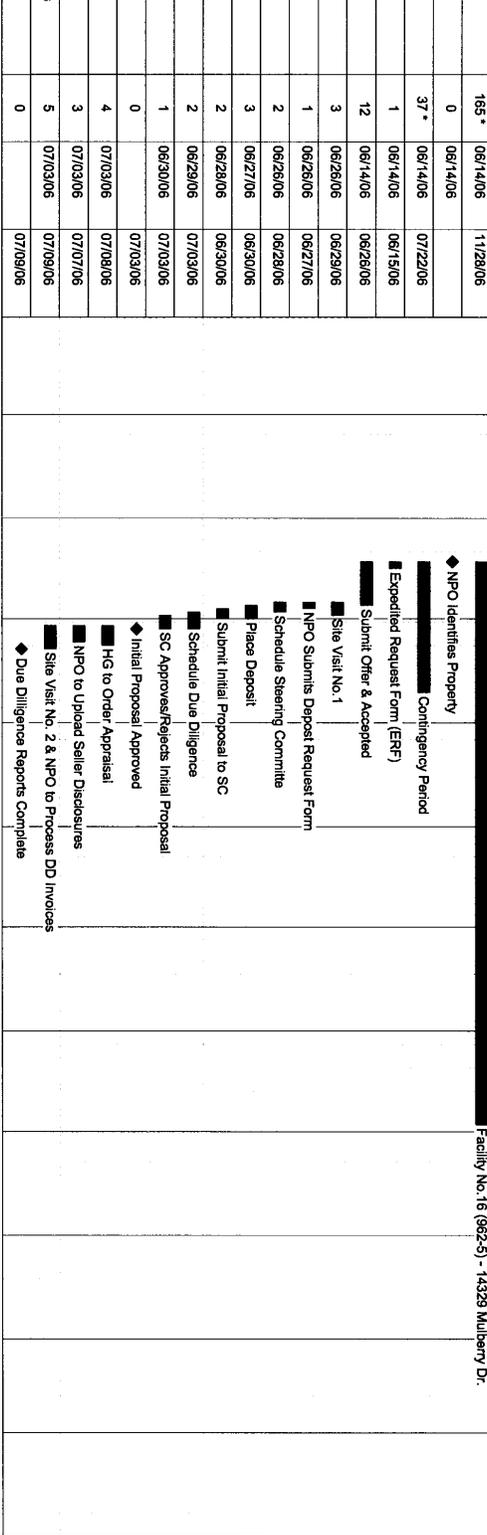






Activity ID	Description	Duration	Start	Finish
07160	Submit DD Reports to HG	1	06/15/06	06/15/06
07170	Review FLG Prelim Budget	1	06/15/06	06/15/06
07180	NPO to Upload DD Reports to IntraLinks	1	06/16/06	06/16/06
07190	Site Visit No. 3	1	06/16/06	06/16/06
07200	FLG Submit Final Budget to HG	1	06/17/06	06/17/06
07210	Submit Final Proposal	1	06/18/06	06/18/06
07220	SC Approval of Final Proposal	1	06/19/06	06/19/06
07230	Call/F/A Approval of Final Proposal	5	06/19/06	06/23/06
07240	BofA Approval of Final Proposal	5	06/19/06	06/23/06
07250	Escrow Non-Refundable	1	06/20/06	06/20/06
07270	Escrow Closing Period	16	06/21/06	07/07/06
07280	Design	8	06/21/06	06/28/06
07280	Final Proposal Approval	0		06/23/06
07290	Bid	6	06/29/06	07/05/06
07300	Close of Escrow	0	07/07/06	07/07/06
07310	Construction	100	07/08/06	10/15/06
07320	Certificate of Occupancy	0		10/15/06

**Facility No. 16 (962-5) - 14329 Mulberry Dr.**



Start date: 04/01/06 10:00AM  
 Finish date: 08/07/07 9:59AM  
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 Page number: 7A  
 Page count: 11A

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Last Updated: July 4, 2006

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Activity ID	Description	Duration	Start	Finish
10180	Submit DD Reports to HG	1	07/09/06	07/10/06
10170	Review FLG Prelim Budget	1	07/09/06	07/10/06
10180	NPO to Upload DD Reports to IntraLinks	1	07/10/06	07/11/06
10190	Site Visit No. 3	4	07/10/06	07/14/06
10200	FLG Submit Final Budget to HG	1	07/14/06	07/15/06
10210	Submit Final Proposal	1	07/15/06	07/16/06
10220	SC Approval of Final Proposal	5	07/16/06	07/21/06
10230	CAHFA Approval of Final Proposal	5	07/17/06	07/22/06
10240	BoA Approval of Final Proposal	5	07/17/06	07/22/06
10250	Escrow Non-Refundable	1	07/21/06	07/22/06
10260	Final Proposal Approval	0		07/21/06
10270	Escrow Closing Period	28	07/22/06	08/19/06
10280	Design	8	07/22/06	07/30/06
10290	Bid	6	07/30/06	08/05/06
10300	Close of Escrow	0		08/19/06
10310	Construction	100	08/19/06	11/28/06
10320	Certificate of Occupancy	0		11/28/06

**EAST BAY (RCEB/HCEB)**

**Facility No. 50 (SRH-4) - 5508 Jasmine Ct.**

Activity ID	Description	Duration	Start	Finish
09000	Facility No. 50 (SRH-4) - 5508 Jasmine Ct.	147 *	06/06/06	11/01/06
09010	NPO Identifies Property	0	06/06/06	06/06/06
09020	Site Visit No. 1	2	06/06/06	06/08/06
09030	Contingency Period	23 *	06/08/06	07/01/06
09040	Expedited Request Form (ERF)	1	06/08/06	06/09/06
09050	Submit Offer & Accepted	1	06/08/06	06/09/06
09060	Schedule Due Diligence	2	06/09/06	06/11/06
09070	Schedule Steering Committee	2	06/09/06	06/11/06
09080	Place Deposit	3	06/09/06	06/14/06
09090	Submit Initial Proposal to SC	2	06/11/06	06/13/06
09100	SC Approves/Rejects Initial Proposal	1	06/13/06	06/14/06
09110	Initial Proposal Approved	0		06/14/06
09120	HG to Order Appraisal	4	06/14/06	06/18/06
09130	HG to Upload Seller Disclosures	3	06/14/06	06/17/06
09140	Site Visit No. 2	5	06/14/06	06/19/06
09150	Due Diligence Reports Complete	0		06/19/06

**BAHP Master Schedule**  
**Filter: Current Property**

**Last Updated: July 4, 2006**

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Start date: 04/01/06 10:00AM  
 Finish date: 08/07/07 9:59AM  
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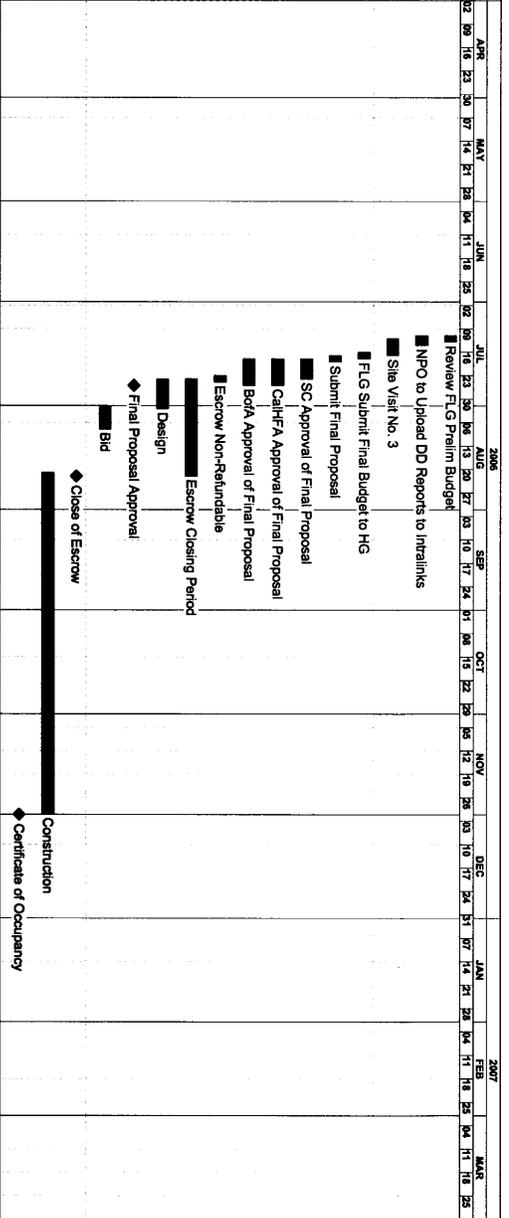
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Activity ID	Description	Duration	Start	Finish
11170	Review FLG Prelim Budget	1	07/11/06	07/13/06
11180	NPO to Upload DD Reports to IntraLinks	2	07/11/06	07/13/06
11190	Site Visit No. 3	4	07/12/06	07/16/06
11200	FLG Submit Final Budget to HG	1	07/16/06	07/17/06
11210	Submit Final Proposal	1	07/17/06	07/18/06
11220	SC Approval of Final Proposal	5	07/18/06	07/23/06
11230	CAHFA Approval of Final Proposal	5	07/18/06	07/23/06
11240	BODA Approval of Final Proposal	5	07/18/06	07/23/06
11250	Escrow Non-Refundable	1	07/23/06	07/24/06
11270	Escrow Closing Period	28	07/24/06	08/21/06
11280	Design	8	07/24/06	08/01/06
11260	Final Proposal Approval	0		07/25/06
11290	Bid	6	08/01/06	08/07/06
11300	Close of Escrow	0		08/21/06
11310	Construction	100	08/21/06	11/30/06
11320	Certificate of Occupancy	0		11/30/06



Start date	04/07/06 10:00AM
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**CALIFORNIA HOUSING FINANCE AGENCY**  
**Addition of Collateral under Bay Area Housing Plan Final Board**  
**Resolutions #05-35 and #06-02 dated September 8, 2005**  
**And January 12, 2006**

**1320 S. Baywood Avenue**  
**San Jose, Santa Clara County, 95128**  
**CalHFA # 06-008N**

**SUMMARY**

This is a request to add the property as collateral under the Bay Area Housing Plan Final Commitment #05-35 dated September 8, 2005. Security for the loan will be a single family home, located at 1320 S. Baywood Avenue, in the City of San Jose, and the County of Santa Clara, modified for use by developmentally disabled adults exiting the Agnews Developmental Center. The property will be initially owned by the Master Developer, Hallmark Community Services, a California nonprofit corporation. Ownership will be assigned to Casa Milagro, LLC, a Limited Liability Company whose sole owner is Bay Area Housing Corporation ("BAHC") a California nonprofit public benefit corporation. The property will be in the catchment area of the San Andreas Regional Center. The property will be leased to a service provider who will be Life Services Alternatives, Inc., a California nonprofit public benefit corporation.

We are drawing against the September 8, 2005 final commitment of \$25,000,000 (balance remaining \$23,179,000) for loan purchases from Bank of America, N.A., as Administrative Agent for the Lenders ("Bank"). After this approval for purchase of the 1320 Baywood loan from the Bank, there will be \$21,171,000 remaining on the September 8, 2005 final commitment for additional loan purchases and \$41,171,000 remaining of the outstanding \$45,000,000 in two final commitments (September 8, 2005 and January 12, 2006) for additional loan purchases.

**LOAN PURCHASE**

**Permanent**

<b>First Mortgage Loan Purchase</b>	\$2,008,000
Interest Rate	150 basis points above the Agency's Cost of Funds
Term	15 year fixed, fully amortized
Financing	501(c)(3) bonds (or taxable funds)
RC Monthly Lease Payment	\$22,512

CalHFA loan purchase will be subject to the Master Developer and the Bank meeting all of the conditions in the Loan Purchase Agreement dated March 30, 2006 ("LPA"). The Regional Centers have approved a lease payment sufficient to support the loan purchase.

## **CONDITIONS TO APPROVAL**

The addition of loan as collateral will be subject to the attached conditions in the Agency "Preliminary Conditional Approval of Final Proposal" dated June 23, 2006 which was sent to the Master Developer and the Bank per the requirements of the LPA (attached).

## **PROPERTY INFORMATION**

- APN-279-13-047
- Purchase Price \$925,150
- Appraised Value \$925,000
- CalHFA Additional Collateral Requirement \$100,400
- CalHFA Debt Service Reserve \$228,888
- 217% LTV
- 192% LTV without Debt Service Reserve Reserves
- 181% LTV assuming all reserves
- There are no title issues

## **PROJECT DESCRIPTION**

The project includes the purchase and proposed remodeling of the existing one story wood framed single family home. The purpose of the remodeling is to allow the residence to be used as a 962 Medical Model within the Bay Area Housing Plan ("BAHP"), to be used to accommodate residents with significant medical needs. The property will be upgraded to meet Community Care licensing standards. The Room Design Criteria Checklist ("RDCC") indicates that up to five of the residents may require the use of a wheelchair. The planned remodeling will include the changes to accommodate the requirements indicated in the RDCC and to also to correct any significant deferred maintenance items indicated in the various due diligence reports prepared for the subject property.

## **Project Location and Site**

- The project is located in the city of Campbell, near southwestern San Jose (with a San Jose mailing address) in a residential area mixed with single family detached homes.
- It is adjacent to parks, local shopping, and services.
- The lot is 8,276 square feet and zoned R-1-6. Single family residences and residential care homes are permitted.
- There are no unusual site conditions.
- The property is currently vacant.

## **Improvements**

- The one-story single family residence was built in 1960. It is 2,373 square feet, with five bedrooms and three baths.
- The property has a poured concrete slab foundation. It is wood frame and with stucco construction with wood siding and wood trim. The roof is heavy shake shingles. It has one fireplace. The plumbing is copper. The heating is central forced air. It is not air conditioned.
- It is in good/updated marketable condition.

## SCOPE OF WORK

The remodeling of the residences includes the following:

- Exterior – Handicapped ramps and decks required for access into the front and rear entrances and the secondary exits out of each of the bedrooms will be installed. The landscaping and irrigation will be upgraded and the sidewalks will be replaced. The gates will be widened to the required width and the sliding glass doors will be replaced with French doors with the required 42 inch opening. The existing shake roofing, which is approximately 16 years old, has approximately 10 years of life remaining and is not to be replaced. In general, the exterior of the residence is in good condition, but the wood and other exposed non-stucco surfaces will be painted. All items indicated in the termite report that require repair and replacement, should be completed, but the contractor's estimate does not appear to include funds for this work. The plaster will need to be repaired and painted following the installation of the doorways and repairs for any termite damage. A new water service and meter will need to be installed to the residence from the current meter connection and a new service may need to be installed from the street to provide sufficient flow and pressure for the required fire sprinkler system. The requirements for the fire sprinkler system have not been provided.
- Interior. The existing kitchen cabinets and tile countertops are to be retained, as they both appear to be in good condition and are able to provide the service for the required 15 year period with some minor repairs and upgrading of the hardware. The flooring will be removed throughout and replaced with hardwood floors; the light and plumbing fixtures will be replaced; a new 50 gallon water heater is to be installed. All new appliances, including washers and dryers in the attached garage, will be replaced and the electrical system will be upgraded to include GFCI outlets at all wet conditions and upgraded panel necessary to accommodate the new air conditioner and other equipment required by the intended use. The existing forced air heating unit will be replaced and air conditioning added. The floor material that contains asbestos is to be removed. Fire sprinklers are to be added throughout the residence and additional electrical outlets will be added as needed. The hallways are to be widened to 48 inches, and all doorways, interior and exterior, will be revised to 42 inches wide. Secured storage cabinets in the bedrooms and the kitchen will be installed and two of the existing bathrooms will be combined into an ADA compliant bathroom, with a roll-in shower, wall mounted toilet and an interior wall mounted tank. All new electrical fixtures will be installed and the entire interior will be painted.
- Cost. The planned remodeling will cost \$409,910 which includes a contingency of \$37,174. While the budget is preliminary and the final pricing on each of the items will not be available until the plans and specifications are prepared and the project is bid out, the total amount of appears sufficient to complete the proposed scope of work. It is our understanding that any remaining contingency will be used for alternate items requested by the Regional Center, but not included in the original scope of work.

## ENVIRONMENTAL

- Lead Paint - None identified but insufficient sampling. Further sampling to be completed.
- Asbestos – Identified In linoleum materials. Removal to ASTM standards is required.

- Mold – No samples obtained but high levels of moisture detected in bathrooms. Windows contain varied degree of mild surface mold growth. Remodeling will address the underlying causes.
- Bolting –No additional action required. The improvements are bolted to the foundation.
- Flood Area – The property is in an area of potential flooding as shown on an inundation map pursuant to section 8589.5 of the Government Code.

**DEVELOPMENT TEAM**

Master Developer:	Hallmark Community Services Inc.
Borrower:	Casa Milagro, LLC, a Limited Liability Company whose sole owner is Bay Area Housing Corporation ("BAHC") a California nonprofit public benefit corporation
Guarantor:	BAHP Regional Centers
Regional Center Catchment Area:	San Andreas Regional Center
Services Provider:	Life Services Alternatives, Inc.
Management Agent:	BAHC
Architect:	Hallmark Community Services Inc.
Contractor:	Fine Line Group
Acquisition & Construction Lender:	Bank of America as Administrative Agent for the Lenders

**Attachments (2):** California Housing Finance Agency Bay Area Housing Plan Preliminary Conditional Approval of Final Proposal for 1320 S. Baywood dated June 23, 2006

1320 S. Baywood - BAHP Final Proposal Proforma dated June 14, 2006, approved by Bank of America as Administrative Agent for the Lenders.

**CALIFORNIA HOUSING FINANCE AGENCY  
BAY AREA HOUSING PLAN**

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**PRELIMINARY APPROVAL OF FINAL PROPOSAL**

RE: Residence Address: 1320 South Baywood Avenue, San Jose, CA 95128 (the "Residence")

Reference is made to the Loan Purchase Agreement dated March 30, 2006, by and among Bank of America, N.A, as Administrative Agent, California Housing Finance Agency ("CalHFA") and Hallmark Community Services (the "Loan Purchase Agreement"). Capitalized terms not defined herein, shall have the meanings ascribed to them in the Loan Purchase Agreement.

In accordance with Section 4.2.3(d) of the Loan Purchase Agreement, CalHFA has reviewed the items included within scope of the Final Proposal, with the exception of the Preliminary Approval Items. CalHFA has taken the following action with respect to the Residence:

- Approved
- Rejected
- Conditionally Approved

The following actions must be taken in order for CalHFA to approve the Residence:

**I. DUE DILIGENCE ITEMS**

**A. Structural Pest Control Report by Thrasher Termite and Pest Control, Incorporated dated May 26, 2006**

1. Add an allowance to the project budget for the work listed within the Structural Pest Control Report but were listed as NIC.
2. If correction of dryrot is specified at areas such that plumbing finish will have to be removed, then we recommend that replacement of the affected fixtures is included in the budget.
3. All work listed within the Structural Pest Control Report should be incorporated into the scope of work and a clearance report should be issued by Thrasher Termite and Pest Incorporated verifying that this work has been completed at the end of rehabilitation.
4. To a reasonable extent, any destructive testing required to further clarify issues raised in the Structural Pest Control Report should be undertaken prior to the start of rehabilitation and the more comprehensive scope should be described in the Construction Documents.

5. When repairs are completed, funds should be allocated for patching and repair of adjacent finishes.

**B. Seller's Disclosure Report dated May 25, 2006**

1. The Seller's disclosure report lists areas of potential flooding, but it is not clear what the specific problem is, what due diligence was conducted to further identify the issue and whether the rehabilitation will correct the potential issue, if possible. This should be clarified and resolved.
2. Per Roy Buis' report, please verify whether this property is located within the city limits of San Jose or Campbell for the purpose of determining which city will have jurisdiction over the rehabilitation work.

**C. Home Inspection Report by Dave Kaufmann dated May 29, 2006**

1. All items listed as requiring correction in Part 2 should be incorporated into the rehabilitation scope. In addition, any issues listed that need further evaluation should be undertaken prior to the start of rehabilitation and added to the scope of rehabilitation if required.
2. Regrading should be done to correct negative slope at the rear of the master bedroom, also, downspouts should terminate away from the building perimeters to aid in site drainage control.
3. When repairs are completed, funds should be allocated for patching and repair of adjacent finishes.
4. Any required corrections to the electrical system grounding should be included as part of the rehabilitation scope.
5. If the fireplace is to be utilized, a hearth constructed of non combustible material should be constructed for safety reasons. In addition, a chimney inspection should be engaged to evaluate the condition of the fireplace.

**D. Environmental Remediation Technologies Report dated June 1, 2006**

1. Lead testing should comply with HUD standards. The testing only included three samples total and did not test each component determined by substrate and color as required by these guidelines. In particular, it did not appear that the amount of testing was adequate, and samples were not taken at the substrates most likely to yield a positive result (no trim samples were taken even though paint used at these substrates generally have a much higher lead content).
2. All asbestos containing material should be abated or encapsulated. An Operations and Maintenance Manual should be provided to lend guidance to residents and management for proper care/maintenance of any areas in which ACMs are encapsulated.
3. Any areas in which ERT detected high concentrations of water/moisture should be investigated further prior to start of rehabilitation. A bathroom

exhaust fan should be added to the scope of work pursuant to the recommendations of this report.

4. The report should be issued to CalHFA/Bank of America and include reliance language.

#### **E. Roof Inspection Report**

1. The roof inspection report was conducted as part of Dave Kaufmann's Home Inspection Report dated May 29, 2006. The evaluator assessed that the roofing system has an expected useful life of 10 more years, as long as it is maintained properly. The replacement of this system is shown in Roy Buis' replacement reserve analysis.

#### **F. Sewer Inspection Report by JMB Plumbing dated May 24, 2006**

1. The report should be signed by the Inspector.

#### **G. Other Items**

1. Develop a maintenance plan for the property which incorporates any recommendations from the Home Inspection Report, the Structural Pest Control Report and the replacement reserve analysis.
2. The property is in an area potential flooding as shown on an inundation map pursuant to section 8589.5 of the Government Code. Property should have flood insurance, if applicable.

## **II. SCOPE OF WORK**

### **A. Detailed Scope of Work**

1. Provide a detailed scope of work in a narrative format so that the scope of planned rehabilitation is easy to comprehend.
2. Provide sketches of changes to partition walls and preliminary specifications as part of the Final Proposal Submittals in order to clarify the intended scope of work.
3. Provide plans (or at minimum sketches of changes to partition walls), shop drawings and specifications as part of the Pre-Hard Cost Submittals in order to further define/clarify the intended scope of work.
4. The replacement reserve analysis has not yet been completed. All items that are required in order to show a balanced reserve should be added to the rehabilitation scope, pursuant to the analysis.

**B. Line Item Budget**

1. The estimated detailed scope/budget should be further refined as the documents are developed.
2. ~~Grounding of the electrical service~~ should be added to the project scope, or else further clarified.
3. All items that are required by the Regional Center should be included in the line item budget; please clarify whether oxygen is required at this property or not.
4. Confirm whether adequate pressure for fire suppression system is available at street; this may affect line item budget.
5. Clarify if new anchor bolts are required for this project since the building is already reported to have bolting.
6. One of the qualifications to the line item budget is that no asphalt paving or ramps are included. Please clarify as this is listed as part of the work in other sections of the budget.

**C. Room Design/Site Selection Criteria**

1. Indicate that all items required by the Regional Centers are included in the scope of work; list which recommended items are included in scope and list all others as alternates within the scope of work.

**D. Construction Inspector's Report**

1. Provide photographs of the site.
2. A replacement reserve analysis was completed, but once the contributions were inserted annually, it proves that necessary expenditures at Year 10 will overdraw the reserve budget by \$11,850. The reserve contribution should be increased to cover future requirements.

**CALIFORNIA HOUSING FINANCE AGENCY,**  
a public instrumentality and political subdivision of the  
State of California

By: Edwin C. Gipson II  
Name: Edwin C. Gipson II  
Title: Chief, Multifamily Programs  
Date: June 23, 2006

Note: Enable Circular References Before Use



Home Type: [REDACTED]  
 Project Location :  
 SARC  
 RCBE  
 GGRC

HCS Term: (1)  
 BofA Cushion: (2)  
 BofA Term  
 Bldg SF  
 Site SF  
 Color Key:

3 months  
 11 months  
 Tan = BofA Cushion  
 Clear = Looked

**RESERVE CALCULATIONS**

**Construction Interest Reserve Assumptions**

Current Daily LIBOR Rate (3)  
 Bank of America Spread  
 HCS Construction Rate Cushion  
**HCS Construction Interest Rate Assumption (4)**  
 Bank of America Spread  
 Bank of America Interest Reserve Cushion  
**Bank of America Interest Rate Assumption (5)**

<<get from HCS  
 2.30%  
 1.00%  
**8.43%**  
 2.30%  
 1.50%  
**8.93%**

**CalHFA Permanent Debt Service Reserve Assumptions**

Taxable Base Rate (For-Profit Provider)  
 CalHFA Spread  
 CalHFA Cushion  
**Estimated Permanent Taxable Interest Rate**  
 Tax-Exempt Base Rate (Nonprofit Provider)  
 CalHFA Spread  
 CalHFA Cushion  
**Estimated Permanent Tax-Exempt Rate**  
 Amortization Period

get from HCS->  
 get from HCS->  
 1.50%  
 0.50%  
**7.60%**  
 get from HCS->  
 1.50%  
 0.50%  
**7.10%**  
 15 years

**MASTER BUDGET LINE ITEM**

Item Description	Pro Forma Budget	Initial Proposal	HCS Projections	FINAL PROPOSAL (Lender Conservatism)	Variance
1 Land Cost	\$ 960,000			\$ 925,150	\$ -
2 Legal/Brokers Fees	\$ -			\$ -	\$ -
3 Demolition	\$ -			\$ -	\$ -
4 Off-site Improvements	\$ -			\$ -	\$ -
<b>TOTAL LAND COSTS</b>	<b>\$ 960,000</b>	<b>\$ 925,000</b>	<b>\$ 925,150</b>	<b>\$ 925,150</b>	<b>\$ -</b>
1 Improvements - Master Developer General Construction (from FLG Estimate) Site Work (Bid Divisions 1, 2 & 3 from FLG Estimate) Haz Mat/ Termitte Abatement Sub	\$ 296,675	\$ 318,675	\$ 339,437	\$ 339,437	\$ -
2 Contractor's Overhead Straight Overhead Contractor Insurance	\$ 18,125	\$ 19,500	\$ 21,222	\$ 21,222	\$ -
3 Contractor's Profit	\$ 14,500	\$ 15,600	\$ 16,637	\$ 16,637	\$ -
4 Hard Cost Contingency	\$ 3,625	\$ 3,900	\$ 4,586	\$ 4,586	\$ -
<b>Sub-Total Hard Costs</b>	<b>\$ 330,825</b>	<b>\$ 354,555</b>	<b>\$ 378,128</b>	<b>\$ 378,128</b>	<b>\$ -</b>
5 Interest During Loan (6)	\$ 33,003	\$ 35,456	\$ 37,813	\$ 37,813	\$ -
6 Appraisal (as-is) at Site Purchase	\$ 363,028	\$ 390,011	\$ 415,941	\$ 415,941	\$ -
<b>TOTAL HARD COSTS</b>	<b>\$ 726,856</b>	<b>\$ 775,522</b>	<b>\$ 832,842</b>	<b>\$ 832,842</b>	<b>\$ -</b>
1 Title (Ins. and Recording) Fees at Site Purchase	\$ 87,643	\$ 87,169	\$ 89,134	\$ 89,134	\$ 51,185
2 Property Taxes (7)	\$ 4,800	\$ 4,800	\$ 4,800	\$ 7,800	\$ 3,000
3 Insurance	\$ 7,500	\$ 7,708	\$ 7,710	\$ 10,601	\$ 2,891
4 Tenant Relocation Costs	\$ 2,117	\$ 2,117	\$ 2,117	\$ 2,117	\$ -
5 Appraisal (as-is) at Site Purchase	\$ -	\$ -	\$ -	\$ -	\$ -
6 Appraisal (as-is) at Site Purchase	\$ 675	\$ 675	\$ 675	\$ 675	\$ -
<b>Sub-Total Soft Costs</b>	<b>\$ 102,735</b>	<b>\$ 102,470</b>	<b>\$ 104,459</b>	<b>\$ 104,459</b>	<b>\$ 57,075</b>
<b>TOTAL PROJECT COSTS</b>	<b>\$ 1,029,591</b>	<b>\$ 1,027,992</b>	<b>\$ 1,037,301</b>	<b>\$ 1,037,301</b>	<b>\$ 57,075</b>

1	Appraisal (as stabb'd)		\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	-
2	Legal Fees at Loan Purchase		\$	250	\$	250	\$	250	\$	2,000	\$	1,750
3	Title (Ins and Recording) Fees at Loan Purchase		\$	600	\$	600	\$	600	\$	600	\$	-
4	Tax Service Contract		\$	100	\$	100	\$	200	\$	200	\$	-
5	CalHFA Debt Reserve - paid at Ln. Purch (8)	Tax-Exempt or Taxable Rate	\$	215,421	\$	214,257	\$	219,086	\$	228,888	\$	9,802
<b>Sub-Total Loan Costs</b>												
1	Construction Consultant		\$	215,421	\$	214,257	\$	219,086	\$	228,888	\$	9,802
2	Other Inspections/Certifications		\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	-
	Cost Estimator		\$	3,750	\$	4,075	\$	4,125	\$	4,125	\$	-
	Water Pressure Test (licensed homes only)		\$	600	\$	600	\$	600	\$	600	\$	-
	Termite & Dry Rot Inspection		\$	250	\$	250	\$	300	\$	300	\$	-
	Roof Inspection (if required)		\$	250	\$	250	\$	300	\$	300	\$	-
	Property Condition Report (Home Inspection)		\$	750	\$	750	\$	525	\$	525	\$	-
	Lead Inspection (if built before 1978)		\$	500	\$	500	\$	1,800	\$	1,800	\$	-
	Asbestos Inspection (if built before 1981)		\$	500	\$	500	\$	-	\$	-	\$	-
	Mold & Mildew Inspection		\$	250	\$	250	\$	-	\$	-	\$	-
	Sewer Cam Inspection		\$	650	\$	650	\$	650	\$	650	\$	-
	Fire Pre-Inspection (licensed homes only)		\$	-	\$	-	\$	100	\$	100	\$	-
3	Permits & Municipal Fees		\$	5,000	\$	4,746	\$	4,746	\$	4,746	\$	-
4	Furnishings		\$	-	\$	-	\$	-	\$	-	\$	-
5	Other Professional Fees		\$	53,500	\$	53,500	\$	53,500	\$	53,500	\$	-
	Architecture & Engineering		\$	50,000	\$	50,000	\$	50,000	\$	50,000	\$	-
	Consulting		\$	3,500	\$	3,500	\$	3,500	\$	3,500	\$	-
6	Environmental Studies		\$	-	\$	-	\$	-	\$	-	\$	-
7	Gen. Overhead (paid to HCS) - 5% of adj. costs*		\$	75,146	\$	74,734	\$	76,161	\$	76,589	\$	428
8	Developer Profit (paid to HCS) - 5% of adj. costs*		\$	75,146	\$	74,734	\$	76,161	\$	76,589	\$	428
	Dev. Profit (90% of th) - paid at Stabilization		\$	67,631	\$	67,261	\$	68,545	\$	68,930	\$	-
	Dev. Profit (10% of th) - paid at Ln. Purchase		\$	7,515	\$	7,473	\$	7,616	\$	7,659	\$	-
9	Share of Credit Facility Costs Note		\$	20,423	\$	20,423	\$	26,295	\$	30,357	\$	4,062
<b>Sub-Total Other Soft Costs</b>												
1	Soft Cost Contingency		\$	23,446	\$	23,371	\$	24,249	\$	24,741	\$	492
<b>TOTAL SOFT COSTS</b>												
			\$	578,515	\$	576,260	\$	592,809	\$	666,847	\$	74,038
<b>TOTAL COSTS</b>												
			\$	1,901,543	\$	1,891,270	\$	1,933,900	\$	2,007,938	\$	74,038
<b>SOURCE: BANK LOAN</b>												
			\$	1,901,543	\$	1,891,270	\$	1,933,900	\$	2,007,938	\$	74,038
<b>BANK LOAN LESS CALHFA DEBT RESERVE</b>												
			\$	1,686,122	\$	1,677,014	\$	1,714,814	\$	1,779,049	\$	64,236

<b>Base Rent</b>												
1	Monthly Debt Service/Base Rent	Tax-Exempt or Taxable Rate	\$	17,628	\$	17,532	\$	17,927	\$	18,728	\$	801
2	Annual Debt Service/Base Rent		\$	211,530	\$	210,388	\$	215,130	\$	224,737	\$	9,608

<b>OPERATIONS (MONTHLY)</b>												
1	Property Management Fee	5% of base rent	\$	881	\$	877	\$	896	\$	936	\$	40
2	PG&E	by tenant	\$	900	\$	900	\$	900	\$	900	\$	-
4	Water & Sewer	by tenant	\$	-	\$	-	\$	-	\$	-	\$	-
4	Trash	by tenant	\$	-	\$	-	\$	-	\$	-	\$	-
5	Landscape Maintenance	by tenant	\$	100	\$	100	\$	100	\$	100	\$	-
6	Maintenance & Repairs	by tenant	\$	100	\$	100	\$	100	\$	100	\$	-
7	Property Taxes (9)	by tenant	\$	1,019	\$	1,019	\$	964	\$	964	\$	-
8	Property Insurance	by tenant	\$	583	\$	583	\$	583	\$	583	\$	-
9	Replacement/Repair Reserve by owner		\$	200	\$	200	\$	200	\$	200	\$	-
<b>Total Monthly Operating Expenses</b>												
			\$	3,783	\$	3,723	\$	3,743	\$	3,783	\$	40
<b>Total Annual Operating Expenses</b>												
			\$	45,401	\$	44,678	\$	44,917	\$	45,397	\$	480

<b>Monthly Debt Service and Operating Total Rent</b>	\$	21,411	\$	21,255	\$	21,671	\$	22,511	\$	841
<b>Annual Debt Service and Operating Total Rent</b>	\$	256,931	\$	255,066	\$	260,047	\$	270,135	\$	10,088

**Sources of Funds**

<b>Predevelopment Loan Fund</b>	\$	32,550	\$	31,825	\$	31,880	\$	31,880	\$	
Land + Hard Costs	\$	1,323,028	\$	1,315,011	\$	1,341,091	\$	1,341,091	\$	
Permanent Financing	\$	1,901,543	\$	1,891,270	\$	1,933,900	\$	2,007,938	\$	

**Area/Cost Summary**

Gross Square Footage (GSF)	2373	2373	2373	2373
Beeds Per Building	5	5	5	5
Lease Per GSF (annual)	108	107	110	114
Lease Cost Per Bed	51,386	51,013	52,009	54,027

**General Notes:**

- Equal to the number of months from Acquisition to Schedule 3 Acceptance by the Steering Committee.
- Bank of America is requiring an additional 3 month cushion to the projected HCS term.
- Rate provided to HCS by Bank of America.
- HCS is using a 1% interest rate cushion to account for increases in LIBOR.
- Bank of America is requiring a 1.5% interest rate cushion in the event of additional increases in LIBOR.
- HCS Construction Interest Reserve Calculation:
  - (HCS Monthly Rate X 80% X Bank Loan less CalHFA Reserve) X HCS Term) + (HCS Monthly Rate X 20% X Bank Loan less CalHFA Reserve) X (HCS Term - 3 months)
  - Bank of America Construction Interest Reserve Calculation:
    - (Bofa Monthly Rate X 80% X Bank Loan less CalHFA Reserve) X (Bofa Term) + (Bofa Monthly Rate X 20% X Bank Loan less CalHFA Reserve) X (Bofa Term - 2 months)

- HCS Assumption: Use Tax-Exempt Rate for Nonprofit Service Providers and Taxable Rate for For Profit Service Providers.
- Lender Assumption: Always use Taxable Rate.
- HCS Assumption: For Nonprofit Service Providers who qualify for Property Tax Exemption, use zero.
- Lender Assumption: Always include Property Taxes.
- CalHFA Construction Consultant to complete a Replacement Reserve Analysis based on Scope of Work and Useful Life Analysis. Minimum reserve is \$2400/year.

**Lender Cushion Notes:**

- Increased allowance for Interest Reserve due to 3 month cushion and 1.5% rate cushion required by Bank of America.
- Increased allowance for Property Tax due to 3 month cushion required by Bank of America.
- Bank of America & CalHFA requires that the CalHFA Debt Service Reserve always Taxable Rates in the event a Non-Profit Provider falls through.
- Overhead is calculated based on the Total Costs (less select expenses outlined in the HDA) which are increased because of Lender cushions.
- Developer Profit is calculated based on the Total Costs (less select expenses outlined in the HDA) which are increased due to Lender cushions.
- Credit Facility Costs Note includes Legal Fees and Construction Loan Fees. Lender requires the costs be allocated across 56 homes, rather than the 71 projected.
- Soft Cost Contingency is a Percentage basis of Soft Costs, which are increased due to Lender cushions.
- Base Rent required by Bank of America to be used in the Long Term Residency Lease at acquisition. Rate will be reduced at permanent financing.
- Until Property Tax Exemption is granted, Lenders require that Property Taxes be included in the Lease Amount.
- The Long Term Residency Lease needs to reflect this conservative amount prior to Acquisition of the property. The lease amount will be modified at Permanent Closing.

**CALIFORNIA HOUSING FINANCE AGENCY**  
**Addition of Collateral under Bay Area Housing Plan Final Board**  
**Resolutions #05-35 and #06-02 dated September 8, 2005**  
**And January 12, 2006**

**227 Prague Street**  
**San Mateo, San Mateo County, CA 94401**  
**CalHFA # 06-009N**

**SUMMARY**

This is a request to add the property as collateral under the Bay Area Housing Plan Final Commitment #05-35 dated September 8, 2005. Security for the loan will be a single-family home, located at 227 Prague Street, in the City of San Mateo, and the County of San Mateo, modified for use by developmentally disabled adults exiting the Agnews Developmental Center. The property will be initially owned by the Master Developer, Hallmark Community Services, and a California nonprofit corporation. Ownership will be assigned to A Home for Life, LLC, a Limited Liability Company whose sole owner is West Bay Housing Corporation ("WBHC") a California nonprofit public benefit corporation. The property will be in the catchment area of the Golden Gate Regional Center.

The property will be leased to a licensed for profit service provider, Gina Rafael. She and her husband currently operate another Adult Residential Facility for the Golden Gate Regional Center which has a Community Care license.

We are drawing against the September 8, 2005 final commitment of \$25,000,000 for loan purchases from Bank of America, N.A., as Administrative Agent for the Lenders ("Bank"). After this approval for purchase of the 227 Prague loan from the Bank, there will be \$19,482,000 remaining on the September 8, 2005 final commitment for additional loan purchases and \$39,482,000 remaining of the outstanding \$45,000,000 in two final commitments (September 8, 2005 and January 12, 2006) for additional loan purchases.

**LOAN PURCHASE**

**Permanent**

<b>First Mortgage Loan Purchase</b>	\$1,688,147
Interest Rate	150 basis points above the Agency's Cost of Funds
Term	15 year fixed, fully amortized
Financing	Taxable funds
RC Monthly Lease Payment	\$18,904
RC Monthly Debt Service	\$15,745

CalHFA loan purchase will be subject to the Master Developer and the Bank meeting all of the conditions in the Loan Purchase Agreement dated March 30, 2006 ("LPA"). The Regional Centers have approved a lease payment sufficient to support the loan purchase.

## **CONDITIONS TO APPROVAL**

The addition of loan as collateral will be subject to the attached conditions in the Agency "Preliminary Conditional Approval of Final Proposal" dated June 28, 2006 which was sent to the Master Developer and the Bank per the requirements of the LPA (attached). CalHFA also added a condition to approval in the Estoppel to the effect that to the extent that there is unpermitted work on the property, the work needs to be removed, or the locality must issue after the fact permits.

## **PROPERTY INFORMATION**

- APN-033-113-040
- Purchase Price \$771,100
- Appraised Value \$790,000
- CalHFA Additional Collateral Requirement \$84,450
- CalHFA Debt Service Reserve \$192,532
- 214% LTV
- 189% LTV without Debt Service Reserve Reserves
- 179% LTV assuming all reserves

## **PROJECT DESCRIPTION**

The project includes the purchase and proposed remodeling of the existing one story wood framed single family home. The purpose of the remodeling is to allow the residence to be used as a Specialized Residential Home ("SRH") Model within the Bay Area Housing Plan ("BAHP"), to be used to accommodate residents with a range of disabilities and/or who may be in wheelchairs or have high behavior and safety issues. The Room Design Criteria Checklist ("RDCC") indicates that some of the residents may require the use of a wheelchair. The planned remodeling will include the changes to accommodate the requirements indicated in the RDCC and to also to correct any significant deferred maintenance items indicated in the various due diligence reports prepared for the subject property.

### **Project Location and Site**

- The project is located in the city of San Mateo, County of San Mateo in a residential area mixed with single-family detached homes.
- It is adjacent to parks, local shopping, and services.
- The lot is 5,000 square feet and zoned R-100.
- There are no unusual site conditions.
- The property is currently occupied. The Borrower will be responsible for any relocation.
- The property is located within one mile of a small airport, however disturbance is minimal.

### **Improvements**

- The one-story single-family residence was built in 1955. It is 1,380 square feet, with three bedrooms and two baths.

- The property has a poured concrete foundation. It is wood frame and with stucco construction with brick veneer and tongue and groove siding. The roof needs to be replaced. It has one fireplace. The visible plumbing is copper. The sewer system needs to be replaced. The heating is gas, forced air. It is air-conditioned.
- The property is in remodeled marketable condition. The subject had a rear bedroom extension, an added bath and remodeled the kitchen. Permitting of additions and remodeling not confirmed. Workmanship was good.

## SCOPE OF WORK

The remodeling of the residences includes the following:

- Exterior – Installation of handicapped ramps and decks required for access into the front and rear entrances and also the secondary exists out of each of the bedrooms; upgrade of the landscaping and irrigation, replacement the sidewalks and widening of the gates to the required width; and replacement of sliding glass doors with French doors with an opening to accommodate the required 32 inch width. The existing composition roofing is to be removed and replaced. In general the exterior of the residence is in good condition, but the wood and other exposed non-stucco surfaces will be painted. All items indicated in the termite report as requiring repair and replacement. The plaster will need to be repaired and painted following the installation of the doorways and repairs for any termite damage. A new water service and meter will need to be installed to the residence from the current meter connection. A new service may need to be installed from the street to provide sufficient flow and pressure for the required fire sprinkler system. The existing covered patio will be removed and a new deck at the height of the main residence will be constructed with ramps down to grade (approximately 18 inches in elevation difference). The sewer report recommends the sewer line be replaced due to off sets, cracks and roots.

Interior. The existing kitchen cabinets and countertops are to be retained, as they are in good condition. The flooring will be removed throughout and replaced with hardwood floors. The light and plumbing fixtures will be replaced and a new 100-gallon water heater is to be installed. All new appliances, including washers and dryers in the attached garage, will be replaced and the electrical system will be upgraded to include GFCI outlets at all wet conditions and upgraded panel necessary to accommodate the new air conditioner and other equipment required by the intended use. A backup generator with appropriate transfer switches are to be installed and the existing forced air-heating unit will be replaced and air conditioning added. The asbestos containing flue and duct insulation is to be removed and fire sprinklers are to be added throughout the residence. Additional electrical outlets will be added as needed throughout the residence and all doorways, interior and exterior will be revised to 32 inches wide. Secured storage cabinets in the bedrooms and the kitchen will be installed; the main bathroom will be converted into an ADA compliant bathroom with a roll in shower and wall-mounted toilet with an interior wall mounted tank. All new electrical fixtures will be installed and the entire interior will be painted.

- Cost. The planned remodeling will cost \$346,570, which includes a contingency of \$31,506. While the budget is preliminary and the final pricing on each of the items will

not be available until the plans and specifications are prepared and the project is bid out, the total amount of appears sufficient to complete the proposed scope of work unless additional work is required by the locality to permit the old additions and upgrades. If additional costs are incurred, the budget will be modified at the pre-hard cost inspection stage of the project. It is our understanding that any remaining contingency will be used for alternate items requested by the Regional Center, but not included in the original scope of work.

## **ENVIRONMENTAL**

- Lead Paint - Report identified none above actionable levels. Report needs to be issued to the Agency
- Asbestos – Identified in ductwork and insulation. Removal to ASTM standards is required. Report needs to be issued to the Agency.
- Mold – Mold score was in the moderate range. Remodeling will address the underlying causes.
- Termite – Some fungus was identified in sub flooring, eaves, meter area and window casing. Removal of boards recommended.
- Bolting – Unknown. Bolting of improvements to the foundation required if not present.
- Flood area - The property is situated in a special flood area and dam inundation area and will require flood insurance.

## **DEVELOPMENT TEAM**

Master Developer:

Borrower:

Hallmark Community Services Inc.

A Home for Life, LLC, a Limited Liability Company whose sole owner is West Bay Housing Corporation ("WBHC") a California nonprofit public benefit corporation

Guarantor:

Regional Center Catchment Area:

Service Provider:

Management Agent:

Architect:

Contractor:

Acquisition & Construction Lender:

BAHP Regional Centers

Golden Gate Regional Center

Gina Rafael, an individual

BAHC

Hallmark Community Services Inc.

Fine Line Group

Bank of America as Administrative Agent for the Lenders

### **Attachments (2):**

California Housing Finance Agency Bay Area Housing Plan Preliminary Conditional Approval of Final Proposal for 277 Prague, dated June 28, 2006

277 Prague - BAHP Final Proposal Proforma dated June 27, 2006, approved by Bank of America as Administrative Agent for the Lenders.

**CALIFORNIA HOUSING FINANCE AGENCY  
BAY AREA HOUSING PLAN**

**PRELIMINARY APPROVAL OF FINAL PROPOSAL**

RE: Residence Address: 227 Prague, San Mateo, CA 94401 (the "Residence")

Reference is made to the Loan Purchase Agreement dated March 30, 2006, by and among Bank of America, N.A, as Administrative Agent, California Housing Finance Agency ("CalHFA") and Hallmark Community Services, as amended by that certain Amendment to Loan Purchase Agreement, dated as of June 16, 2006 (the "Loan Purchase Agreement"). Capitalized terms not defined herein, shall have the meanings ascribed to them in the Loan Purchase Agreement.

In accordance with Section 4.2.3(d) of the Loan Purchase Agreement, CalHFA has reviewed the items included within scope of the Final Proposal, with the exception of the Preliminary Approval Items. CalHFA has taken the following action with respect to the Residence:

- Approved
- Rejected
- Conditionally Approved

The following actions must be taken in order for CalHFA to approve the Residence:

**I. DUE DILIGENCE ITEMS**

**A. Structural Pest Control Report by JK Control, Inc. dated June 6, 2006**

1. Add an allowance to the project budget for the work listed within the Structural Pest Control Report but were listed as NIC.
2. All work listed within the Structural Pest Control Report should be incorporated into the scope of work and a clearance report should be issued by JK Control verifying that this work has been completed at the end of rehabilitation.
3. To a reasonable extent, any destructive testing required to further clarify issues raised in the Structural Pest Control Report should be undertaken prior to the start of rehabilitation and the more comprehensive scope should be described in the Construction Documents.
4. When repairs are completed, funds should be allocated for patching and repair of adjacent finishes.

**B. Seller's Disclosure Report prepared on May 8, 2006**

1. The seller does not fully describe issues regarding 19A asbestos, 19B hazardous materials, and 20A seismic / flood areas, but rather references several reports that could not be found, "Walker Property Inspection," "CGS Report" or "LGS Report," and "C[illegible] Pest Inspection." Please provide these documents or clarify.
2. The status of the building inspections for the additions and renovations is unclear. Please confirm that permits were issued for this work. If permits were not issued, this should be brought to the attention of the local building authority for corrective action and any necessary repairs should be included in the rehabilitation work. A contingency allowance should be included in the budget to cover these costs.

**C. Home Inspection Report by Land America Property Inspection Services dated June 5, 2006**

1. All action and maintenance items listed within Section I- Key Findings within the report should be incorporated into the rehabilitation scope. In addition, any issues listed that need further evaluation should be undertaken prior to the start of rehabilitation and added to the scope of rehabilitation if required.
2. When repairs are completed, funds should be allocated for patching and repair of adjacent finishes.
3. The Sun Room is not weather tight, please clarify how this will be addressed, or if this room will be removed.

**D. Hazardous Materials Reports, including**

1. **Lead Paint Inspection Report by ELD, Inc. dated June 5, 2006,**  
The report should be issued to CalHFA/ Administrative Agent and include reliance language.
2. **Asbestos Inspection Report by Asbestos TEM Laboratories dated June 7, 2006**
  - a. All items listed as requiring correction should be incorporated into the rehabilitation scope.
  - b. The report should be issued to CalHFA/ Administrative Agent and include reliance language.
3. **Mold Survey Report by RMS Real Estate Inspections Services, dated June 6, 2006**
  - a. All items listed as requiring correction should be incorporated into the rehabilitation scope.
  - b. All areas of potential mold growth noted in the report should be investigated and corrected as required.

- c. The report should be issued to CalHFA/ Administrative Agent and include reliance language.

**E. Roof Inspection Report**

This information is included within the Home Inspection Report. According to this report, the roof has reached the end of its expected useful life.

**F. Sewer Inspection Report by Sewer Rat Plumbing and Drain Service dated June 6, 2006**

1. Estimate to replace main clay sewer line should be incorporated into rehabilitation scope.

**G. Other Items**

1. Develop a maintenance plan for the property which incorporates any recommendations from the Home Inspection Report, the Structural Pest Control Report and the replacement reserve analysis.
2. Provide As-Is Appraisal.
3. This property is in a special flood and dam inundation area. Flood insurance will be required.
4. Include costs if required to cover relocation for the tenant who is currently occupying the building.
5. The CC&Rs should be removed from Title or endorsed.

**II. SCOPE OF WORK**

**A. Detailed Scope of Work dated 6.13.06 but released 6.19.06**

1. Provide a detailed scope of work in a narrative format so that the scope of planned rehabilitation is easy to comprehend.
2. Provide sketches of changes to partition walls and preliminary specifications as part of the Final Proposal Submittals in order to clarify the intended scope of work.
3. Provide plans (or at minimum sketches of changes to partition walls), shop drawings and specifications as part of the Pre-Hard Cost Submittals in order to further define/clarify the intended scope of work.
4. The original scope of work dated 6.13.06 differs from the most recently released report, also dated 6.13.06.
5. Provide insulation at the attic space.
6. All knob and tube wiring at the attic (or elsewhere) should be removed and replaced.

**B. Line Item Budget produced by Fine Line Group dated June 13, 2006**

1. The estimated detailed scope/budget should be further refined as the scope of work is defined further.
2. Confirm that the replacement of the clay main sewer line is included in the project budget.

**C. Room Design Criteria revised June 9, 2006 & Site Selection Criteria**

1. Indicate that all items required by the Regional Centers are included in the scope of work.
2. List which recommended items are included in scope.
3. List all other recommended items as alternates within the scope of work, and prioritize them.
4. Checklist calls for protective film on windows to prevent breakage; but this is not seen in the line item budget.

**D. Construction Inspector's Report dated June 20, 2006 by Buis Construction Services, Inc.**

1. Provide photographs of the site.
2. Provide a budget analysis.
3. Follow up on fire sprinkler water flow sufficiency report, which had not been completed at the time of this report. If flow is not sufficient, this could have a severely adverse affect on the project budget.

**E. Lease**

Include flood insurance in the lease rate.

**CALIFORNIA HOUSING FINANCE AGENCY,**  
a public instrumentality and political subdivision of the  
State of California

By:   
Name: Laura A. Whittall-Scherf  
Title: Chief - Multigamily Programs

**BAHP Pro Forma**

PR-1

6.13.06  
REV. 6.27.06

SRH3 Remodel

Note: Enable Circular References Before Use

Home Type:   
Project Location :  
SARC  
RCGB  
GGRC

HCS Term: (1)  
Bofa Cushion: (2)  
Bldg Term  
Bldg SF  
Site SF  
Color Key:

3 months  
11 months  
Tan = Bofa Cushion  
Clear = Locked

**RESERVE CALCULATIONS**

**Construction Interest Reserve Assumptions**

Current Daily LIBOR Rate (3)   
Bank of America Spread  
HCS Construction Rate Cushion  
HCS Construction Interest Rate Assumption (4)  
Bank of America Spread  
Bank of America Interest Reserve Cushion  
Bank of America Interest Rate Assumption (5)

<<get from HCS	Taxable Base Rate (For-Profit Provider)	get from HCS>>	1.50%
2.30%	CalHFA Spread	get from HCS>>	0.50%
1.00%	CalHFA Cushion	get from HCS>>	7.50%
8.65%	Estimated Permanent Taxable Interest Rate		
2.30%	Tax-Exempt Base Rate (Nonprofit Provider)		1.50%
1.50%	CalHFA Spread		0.50%
9.15%	CalHFA Cushion		7.10%
	Estimated Permanent Tax-Exempt Rate		15 Years
	Amortization Period		

**CalHFA Permanent Debt Service Reserve Assumptions**

CalHFA Spread	1.50%
CalHFA Cushion	7.50%
Estimated Permanent Taxable Interest Rate	
Tax-Exempt Base Rate (Nonprofit Provider)	
CalHFA Spread	
CalHFA Cushion	
Estimated Permanent Tax-Exempt Rate	
Amortization Period	

**MASTER BUDGET LINE ITEM**

- 1 Land Cost
- 2 Legal/Brokers Fees
- 3 Demolition
- 4 Off-site Improvements

**TOTAL LAND COSTS**

- 1 Improvements - Master Developer  
General Construction (from FLG Estimate)  
Site Work (Bid Divisions 1, 2 & 3 from FLG Estimate)  
Haz Mat/ Termitte Abatement Sub
- 2 Contractor's Overhead  
Straight Overhead  
Contractor Insurance
- 3 Contractor's Profit

**SOFT COSTS**

**4 Hard Cost Contingency**

**TOTAL HARD COSTS**

- 1 Interest During Loan (6)
- 2 Title (Ins. and Recording) Fees at Site Purchase
- 3 Property Taxes (7)
- 4 Insurance
- 5 Tenant Relocation Costs
- 6 Appraisal (as-is) at Site Purchase

**SOFT COSTS**

**Pro Forma Budget**

**Initial Proposal**

**HCS Projection**

**FINAL PROPOSAL**

(Funder Conservatism)

**Variance**

Item	Pro Forma Budget	Initial Proposal	HCS Projection	FINAL PROPOSAL (Funder Conservatism)	Variance
1 Land Cost	\$ 800,000	\$ 800,000	\$ 771,150	\$ 771,150	\$ -
2 Legal/Brokers Fees	\$ -	\$ -	\$ -	\$ -	\$ -
3 Demolition	\$ -	\$ -	\$ -	\$ -	\$ -
4 Off-site Improvements	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL LAND COSTS</b>	<b>\$ 800,000</b>	<b>\$ 771,150</b>	<b>\$ 771,150</b>	<b>\$ 771,150</b>	<b>\$ -</b>
1 Improvements - Master Developer	\$ 134,000	\$ 175,000	\$ 299,668	\$ 299,668	\$ -
General Construction (from FLG Estimate)	\$ 125,000	\$ -	\$ 260,218	\$ 260,218	\$ -
Site Work (Bid Divisions 1, 2 & 3 from FLG Estimate)	\$ 3,000	\$ -	\$ 34,450	\$ 34,450	\$ -
Haz Mat/ Termitte Abatement Sub	\$ 6,000	\$ -	\$ 5,000	\$ 5,000	\$ -
2 Contractor's Overhead	\$ 8,000	\$ 10,625	\$ 18,794	\$ 18,794	\$ -
Straight Overhead	\$ 6,400	\$ 8,500	\$ 14,733	\$ 14,733	\$ -
Contractor Insurance	\$ 1,600	\$ 2,125	\$ 4,061	\$ 4,061	\$ -
3 Contractor's Profit	\$ 6,720	\$ 8,925	\$ 15,470	\$ 15,470	\$ -
<b>SOFT COSTS</b>	<b>\$ 148,720</b>	<b>\$ 194,550</b>	<b>\$ 333,932</b>	<b>\$ 333,932</b>	<b>\$ -</b>
4 Hard Cost Contingency	\$ 14,872	\$ 19,455	\$ 33,393	\$ 33,393	\$ -
<b>TOTAL HARD COSTS</b>	<b>\$ 163,592</b>	<b>\$ 214,005</b>	<b>\$ 367,326</b>	<b>\$ 367,326</b>	<b>\$ -</b>
1 Interest During Loan (6)	\$ 64,465	\$ 64,694	\$ 76,770	\$ 120,891	\$ 44,121
2 Title (Ins. and Recording) Fees at Site Purchase	\$ 4,800	\$ 4,800	\$ 4,800	\$ 7,800	\$ 3,000
3 Property Taxes (7)	\$ 6,426	\$ 6,117	\$ 6,118	\$ 8,412	\$ 2,294
4 Insurance	\$ 2,117	\$ 2,117	\$ 3,617	\$ 3,617	\$ -
5 Tenant Relocation Costs	\$ -	\$ -	\$ -	\$ -	\$ -
6 Appraisal (as-is) at Site Purchase	\$ 675	\$ 675	\$ 675	\$ 675	\$ -
<b>SOFT COSTS</b>	<b>\$ 78,483</b>	<b>\$ 78,482</b>	<b>\$ 91,972</b>	<b>\$ 144,385</b>	<b>\$ 65,913</b>

1	Appraisal (as stab'd)		\$	300	\$	300	\$	300	\$	300	\$	-
2	Legal Fees at Loan Purchase		\$	250	\$	250	\$	250	\$	2,000	\$	1,750
3	Title (Ins and Recording) Fees at Loan Purchase		\$	600	\$	600	\$	600	\$	600	\$	-
4	Tax Service Contract		\$	100	\$	100	\$	200	\$	200	\$	-
5	CalHFA Debt Reserve - paid at Ln. Purch <sup>(8)</sup>	Tax-Exempt or Taxable Rate	\$	154,403	\$	159,014	\$	183,874	\$	192,435	\$	8,560
<b>Sub-Total Debt Loan Costs</b>			\$	<b>154,403</b>	\$	<b>160,964</b>	\$	<b>185,224</b>	\$	<b>195,595</b>	\$	<b>10,510</b>

1	Construction Consultant		\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	-
2	Other Inspections/Certifications		\$	3,750	\$	3,750	\$	6,000	\$	6,000	\$	-
	Cost Estimator		\$	600	\$	600	\$	600	\$	600	\$	-
	Water Pressure Test (licensed homes only)		\$	-	\$	-	\$	-	\$	-	\$	-
	Termite & Dry Rot Inspection		\$	250	\$	250	\$	250	\$	250	\$	-
	Roof Inspection (if required)		\$	250	\$	250	\$	250	\$	250	\$	-
	Property Condition Report (Home Inspection)		\$	750	\$	750	\$	750	\$	750	\$	-
	Lead Inspection (if built before 1978)		\$	500	\$	500	\$	500	\$	500	\$	-
	Asbestos Inspection (if built before 1981)		\$	500	\$	500	\$	500	\$	500	\$	-
	Mold & Mildew Inspection		\$	250	\$	250	\$	250	\$	250	\$	-
	Sewer Cam Inspection		\$	650	\$	650	\$	650	\$	650	\$	-
	Elevation Survey (if in Flood Zone)		\$	-	\$	-	\$	2,200	\$	2,200	\$	-
	Fire Pre-Inspection (licensed homes only)		\$	-	\$	-	\$	-	\$	-	\$	-

3	Permits & Municipal Fees		\$	4,000	\$	4,000	\$	4,000	\$	4,000	\$	-
4	Furnishings		\$	-	\$	-	\$	-	\$	-	\$	-
5	Other Professional Fees		\$	13,500	\$	23,500	\$	23,500	\$	23,500	\$	-
	Architecture & Engineering		\$	10,000	\$	10,000	\$	20,000	\$	20,000	\$	-
	Consulting		\$	3,500	\$	3,500	\$	3,500	\$	3,500	\$	-

6	Environmental Studies		\$	-	\$	-	\$	-	\$	-	\$	-
7	Gen. Overhead (paid to HCS) - 5% of adj. costs*		\$	53,507	\$	55,214	\$	63,626	\$	64,022	\$	396
8	Developer Profit (paid to HCS) - 5% of adj. costs*		\$	53,507	\$	55,214	\$	63,626	\$	64,022	\$	396
	Dev. Profit (90% of tft) - paid at Stabilization		\$	48,156	\$	49,693	\$	57,263	\$	57,620	\$	-
	Dev. Profit (10% of tft) - paid at Ln. Purchase		\$	5,351	\$	5,521	\$	6,363	\$	6,402	\$	-
9	Share of Credit Facility Costs Note		\$	20,423	\$	20,423	\$	26,295	\$	30,357	\$	4,062
	Soft Cost Contingency		\$	15,019	\$	16,360	\$	18,855	\$	19,340	\$	485

<b>TOTAL SOFT COSTS</b>			\$	<b>399,341</b>	\$	<b>418,628</b>	\$	<b>484,605</b>	\$	<b>549,671</b>	\$	<b>65,066</b>
<b>TOTAL COSTS</b>			\$	<b>1,362,933</b>	\$	<b>1,403,633</b>	\$	<b>1,623,081</b>	\$	<b>1,688,147</b>	\$	<b>65,066</b>
<b>SOURCE: BANK LOAN</b>			\$	<b>1,362,933</b>	\$	<b>1,403,633</b>	\$	<b>1,623,081</b>	\$	<b>1,688,147</b>	\$	<b>65,066</b>
<b>BANK LOAN LESS CALHFA DEBT RESERVE</b>			\$	<b>1,208,530</b>	\$	<b>1,244,619</b>	\$	<b>1,439,206</b>	\$	<b>1,495,712</b>	\$	<b>56,505</b>

<b>Base Rent</b>												
1	Monthly Debt Service/Base Rent	Tax-Exempt or Taxable Rate	\$	12,635	\$	13,012	\$	15,046	\$	15,745	\$	699
2	Annual Debt Service/Base Rent		\$	151,615	\$	156,142	\$	180,554	\$	188,945	\$	8,391

<b>OPERATIONS - MONTHLY</b>												
1	Property Management Fee	5% of base rent	\$	632	\$	651	\$	752	\$	787	\$	35
2	PG&E	by tenant	\$	540	\$	533	\$	533	\$	533	\$	-
4	Water & Sewer	by tenant	\$	-	\$	-	\$	-	\$	-	\$	-
4	Trash	by tenant	\$	-	\$	-	\$	-	\$	-	\$	-
5	Landscape Maintenance	by tenant	\$	100	\$	100	\$	100	\$	100	\$	-
6	Maintenance & Repairs	by tenant	\$	100	\$	100	\$	100	\$	100	\$	-
7	Property Taxes <sup>(9)</sup>	by tenant	\$	730	\$	730	\$	765	\$	765	\$	-
8	Property Insurance	by tenant	\$	574	\$	574	\$	674	\$	674	\$	-
9	Replacement/Repair Reserve	by owner	\$	200	\$	200	\$	200	\$	200	\$	-
<b>Total Monthly Operating Expenses</b>			\$	<b>2,876</b>	\$	<b>2,922</b>	\$	<b>3,124</b>	\$	<b>3,159</b>	\$	<b>35</b>
<b>Total Annual Operating Expenses</b>			\$	<b>34,509</b>	\$	<b>35,066</b>	\$	<b>37,488</b>	\$	<b>37,908</b>	\$	<b>420</b>

Monthly Debt Service and Operating Total Rent	\$ 15,510	\$ 15,934	\$ 18,170	\$ 18,904	\$ 734
Annual Debt Service and Operating Total Rent	\$ 186,123	\$ 191,208	\$ 218,042	\$ 226,853	\$ 8,811

**Sources of Funds**

Predevelopment Loan Fund	\$ 27,750	\$ 26,880	\$ 29,135	\$ 29,135
Land + Hard Costs	\$ 963,592	\$ 985,005	\$ 1,138,476	\$ 1,138,476
Permanent Financing	\$ 1,362,933	\$ 1,403,633	\$ 1,623,081	\$ 1,688,147

**Area/Cost Summary**

Gross Square Footage (GSF)	1380	1380	1380	1380
Beds Per Building	3	3	3	3
Lease Per GSF (annual)	\$ 135	\$ 139	\$ 158	\$ 164
Lease Cost Per Bed	\$ 62,041	\$ 63,736	\$ 72,681	\$ 75,618

**General Notes:**

- (1) Equal to the number of months from Acquisition to Schedule 3 Acceptance by the Steering Committee.
- (2) Bank of America is requiring an additional 3 month cushion to the projected HCS term.
- (3) Rate provided to HCS by Bank of America.
- (4) HCS is using a 1% interest rate cushion to account for increases in LIBOR.
- (5) Bank of America is requiring a 1.5% interest rate cushion in the event of additional increases in LIBOR.
- (6) HCS Construction Interest Reserve Calculation:

(HCS Monthly Rate X (80% X Bank Loan less CalHFA Reserve) X HCS Term) + (HCS Monthly Rate X (20% X Bank Loan less CalHFA Reserve) X (HCS Term - 3 months))  
 Bank of America Construction Interest Reserve Calculation:

- (7) Property Tax Rate to be customized to the location of each property.
- (8) HCS Assumption: Use Tax-Exempt Rate for Nonprofit Service Providers and Taxable Rate for For Profit Service Providers.  
 Lender Assumption: Always use Taxable Rate.
- (9) HCS Assumption: For Nonprofit Service Providers who qualify for Property Tax Exemption, use zero.  
 Lender Assumption: Always include Property Taxes.
- (10) CalHFA Construction Consultant to complete a Replacement Reserve Analysis based on Scope of Work and Useful Life Analysis. Minimum reserve is \$2400/year.

**Lender Cushion Notes:**

- a Increased allowance for Interest Reserve due to 3 month cushion and 1.5% rate cushion required by Bank of America.
- b Increased allowance for Property Tax due to 3 month cushion required by Bank of America.
- c Bank of America & CalHFA requires that the CalHFA Debt Service Reserve always Taxable Rates in the event a Non-Profit Provider falls through.
- d Overhead is calculated based on the Total Costs (less select expenses outlined in the HDA) which are increased because of Lender cushions.
- e Developer Profit is calculated based on the Total Costs (less select expenses outlined in the HDA) which are increased due to Lender cushions.
- f Credit Facility Costs Note Includes: Legal Fees and Construction Loan Fees. Lender requires the costs be allocated across 56 homes, rather than the 71 projected.
- g Soft Cost Contingency is a percentage basis of Soft Costs, which are increased due to Lender cushions.
- h Base Rent required by Bank of America to be used in the Long Term Residency Lease at acquisition. Rate will be reduced at permanent financing.
- i Until Property Tax Exemption is granted, Lenders require that Property Taxes be included in the Lease Amount.
- j The Long Term Residency Lease needs to reflect this conservative amount prior to Acquisition of the property. The lease amount will be modified at Permanent Closing.

**CALIFORNIA HOUSING FINANCE AGENCY**  
**Addition of Collateral under Bay Area Housing Plan Final Board**  
**Resolutions #05-35 and #06-02 dated September 8, 2005**  
**And January 12, 2006**

**1527-1529 Eden Avenue**  
**San Jose, Santa Clara County, 95117**  
**CalHFA # 0-6007N**

**SUMMARY**

This is a request to add the property as collateral under the Bay Area Housing Plan Final Commitment #05-35 dated September 8, 2005. Security for the loan will be a duplex modified for use by developmentally disabled adults exiting the Agnews Developmental Center located at 1527-1519 Eden Avenue, in the City of San Jose, and the County of Santa Clara. The property will be initially owned by the Master Developer, Hallmark Community Services, a California non-profit corporation. Ownership will be assigned to Casa Milagro, LLC, a Limited Liability Company whose sole owner is Bay Area Housing Corporation ("BAHC") a California nonprofit public benefit corporation. The property will be in the catchment area of the San Andreas Regional Center. The property will be leased to a service provider who will be California Community Opportunities, a California non-for Profit Corporation.

We are drawing against the September 8, 2005 final commitment of \$25,000,000 for loan purchases from Bank of America as Administrative Agent for the Lenders (Bank). After this approval for 527-1529 Eden loan from the Bank, there will be \$23,179,000 remaining on the September 8, 2005 final commitment for additional loan purchases and \$43,179,000 remaining of the outstanding \$45,000,000 in two final commitments (September 8, 2005 and January 12, 2006) for additional loan purchases.

**LOAN PURCHASE**

**Permanent**

<b>First Mortgage Loan Purchase</b>	\$1,821,000
Interest Rate	150 basis points above the Agency's Cost of Funds
Term	15 year fixed, fully amortized
Financing	501 (c) (3) bonds (or taxable funds)
RC Monthly Lease Payment	\$20,629

CalHFA loan purchase will be subject to the Master Developer and the Bank meeting all of the conditions in the Loan Purchase Agreement dated March 30, 2006 (LPA). The Regional Centers have approved a lease payment sufficient to support the loan purchase.

**CONDITIONS TO APPROVAL**

The addition of loan as collateral will be subject to the attached conditions in the Agency

"Preliminary Conditional Approval of Final Proposal" which was sent to the Master Developer and the Bank per the requirements of the LPA (attached).

## **PROPERTY INFORMATION**

- APN-305-05-028
- Purchase Price \$875,000
- Appraised Value \$875,000
- CalHFA Additional Collateral Requirement \$91,050
- CalHFA Debt Service Reserve \$207,587
- 208% LTV
- 184% LTV without Debt Service Reserve Reserves
- 161% LTV assuming all reserves

## **PROJECT DESCRIPTION**

The project includes the purchase and proposed remodeling of the existing one story wood framed duplex unit. The purpose of the remodeling is to allow the residences to be used as a Family Teaching Model (FTM) within the Bay Area Housing Plan (BAHP). 1527 Eden will be the provider side and 1529 Eden will be the client side. The Room Design Criteria Checklist (RDCC) indicates that client side of the duplex is to accommodate three bedrooms and it should be anticipated that at least one of the residents will require the use of a wheelchair. The planned remodeling will include the changes to the client and provider sides of the duplex to accommodate the requirements indicated in the Room Design Checklist and to also to correct any significant deferred maintenance items indicated in the various due diligence reports prepared for the subject property.

### **Project Location and Site**

- The project is located in western San Jose in a residential area mixed with single family, small residential income and multifamily properties.
- It is adjacent to parks, local shopping, and services.
- The lot is 6,180 square feet and zoned Residential 2- Family.
- There are no unusual site conditions.

### **Improvements**

- The 2 unit duplex was built in 1956. It contains two six room units, each of which has three bedrooms and two baths. The Service provider unit is 1,087 square feet and the resident unit is 1,124 square feet.
- The property has a raised concrete slab foundation. It is framed with wood with stucco siding. The roof is asphalt composition shingles. It has two fireplaces. The plumbing is copper. The waste system is cast iron and galvanized steel. The heating is electric baseboard. It is not air conditioned.

## **SCOPE OF WORK**

The remodeling of the residences includes the following:

- Exterior – installation of handicapped ramps and decks required for access into the primary and secondary entrances to Unit 1529; upgrade of the landscaping and irrigation, repairs to some of the fencing, replacement of some of the concrete pads, installation of shatterproof windows on the client side, and replacing of three sets of sliding glass doors with French doors with a minimum width of 36 inches for one of the doors. In general the exterior of the residence, which is covered with painted plaster, is in good condition. The plaster will need to be repaired and painted following the installation of the new windows, and repairs of termite damage. The roof and gutters will be replaced.
- Interior of Unit 1527 – Provider Side. The kitchen cabinets, granite tops and kitchen appliances were recently replaced and are in good condition; the bathroom cabinets and tops are to be removed and replaced with all new finishes, including stone tops; the majority of the flooring consists of laminated wood and tile and will be retained where possible; new flooring will be installed at remodeled areas; the light and plumbing fixtures will be replaced; new washers and dryers in the attached garage will need to be installed if the existing tenants remove the existing washers and dryers; the electrical system will be upgraded to be fully grounded, including GFCI outlets at all wet conditions, and an upgraded panel if necessary to accommodate the new air conditioning system; the existing baseboard electric heaters will be removed and a new forced air heating and cooling system will be installed; the asbestos containing acoustic ceiling material and taping joint compound will be removed and the ceiling and walls will be retextured; an entry closet will be removed to allow the necessary clearance for the new door that will be added to provide direct access to the adjacent client unit; the insert will be removed from the fireplace; and the entire interior of the unit will be repainted.
- Interior of Unit 1529 – Consumer Side. The kitchen and bathroom cabinets and tops are to be removed and replaced with all new finishes, including granite countertops; the majority of the existing flooring consists of laminated wood flooring and will be saved where possible. New flooring will be installed in areas to be remodeled; the light and plumbing fixtures will be replaced; all new appliances, including washers and dryers in the attached garage, will be replaced; the electrical system will be upgraded to include proper grounding, GFCI outlets at all wet conditions and an upgraded panel if necessary to accommodate the new heating and air conditioning; the existing electric base board heaters will be removed and a new forced air heating and cooling system will be installed; the asbestos containing acoustic ceiling material and taping mud will be removed and the areas will be retextured and the entire interior of the unit will be repainted. One of the bathrooms will be enlarged and be converted to a complete ADA compliant bathroom, including a roll-in shower; widening of doors and hallways to meet the minimum 36 inch requirement; closing up of the brick fireplace in the living room; and removal of a portion of the dividing wall between the kitchen and living room to allow better sight lines. The improvements are all to be ADA compliant.
- Cost. The planned remodeling will cost \$364,623 which includes \$35,000 for unforeseen conditions, and a contingency of \$33,148. While the budget is preliminary and the final pricing on each of the items will not be available until the plans and specifications are prepared and the project is bid out, the total amount of appears sufficient to complete the proposed scope of work. It is our understanding that any remaining contingency will be used for alternate items requested by the Regional Center, but not included in the original scope of work.

## ENVIRONMENTAL

- Lead Paint - Retesting required
- Asbestos – Identified. Removal to ASTM standards is required
- Mold – Identified. Remodeling will address underlying causes
- Bolting – No additional action required. The improvements are bolted to the foundation.

## DEVELOPMENT TEAM

Master Developer:	Hallmark Community Services Inc.
Borrower:	Casa Milagro, LLC, a Limited Liability Company whose sole owner is Bay Area Housing Corporation ("BAHC") a California nonprofit public benefit corporation
Guarantor:	BAHP Regional Centers
Regional Center Catchment Area:	San Andreas Regional Center
Services Provider:	California Community Opportunities,
Management Agent:	BAHC
Architect:	Hallmark Community Services Inc.
Contractor:	Fine Line Group
Acquisition & Construction Lender:	Bank of America as Administrative Agent for the Lenders

**Attachments (2):** California Housing Finance Agency Bay Area Housing Plan Preliminary Conditional Approval of Final Proposal for 1527-1529 Eden dated June 7, 2006

1527-1529 Eden - BAHP Final Proposal Proforma dated June 12, 2006, approved by Bank of America as Administrative Agent for the Lenders.

**CALIFORNIA HOUSING FINANCE AGENCY  
BAY AREA HOUSING PLAN**

**PRELIMINARY APPROVAL OF FINAL PROPOSAL**

RE: Residence Address: 1527-1529 Eden Avenue, San Jose, CA 95117 (the "Residence")

Reference is made to the Loan Purchase Agreement dated March 30, 2006, by and among Bank of America, N.A. as Administrative Agent, California Housing Finance Agency ("CalHFA") and Hallmark Community Services (the "Loan Purchase Agreement"). Capitalized terms not defined herein, shall have the meanings ascribed to them in the Loan Purchase Agreement.

In accordance with Section 4.2.3(d) of the Loan Purchase Agreement, CalHFA has reviewed the items included within scope of the Final Proposal, with the exception of the Preliminary Approval Items. CalHFA has taken the following action with respect to the Residence:

- Approved
- Rejected
- Conditionally Approved

The following actions must be taken in order for CalHFA to approve the Residence:

**I. DUE DILIGENCE ITEMS**

**A. Structural Pest Control Report by Antique Termite and Pest Incorporated dated May 9, 2006**

1. Add an allowance to the project budget for the work listed within the Structural Pest Control Report but were listed as NIC.
2. If correction of dryrot is specified at provider side, then we recommend that replacement of fixtures is included in the budget.
3. All work listed within the Structural Pest Control Report should be incorporated into the scope of work and a clearance report should be issued by Antique Termite and Pest Incorporated verifying that this work has been completed at the end of rehabilitation.
4. To a reasonable extent, any destructive testing required to further clarify issues raised in the Structural Pest Control Report should be undertaken prior to the start of rehabilitation and the more comprehensive scope should be described in the Construction Documents.

5. When repairs are completed, funds should be allocated for patching and repair of adjacent finishes.

**B. Seller's Disclosure Report**

1. The Seller's disclosure report and the Home Inspection Report specified that repairs are required at the gutters. Repair or replacement of gutters and downspouts should be incorporated into the scope of rehabilitation.
2. The Seller's disclosure report lists areas of potential flooding, but it is not clear what the specific problem is, what due diligence was conducted to further identify the issue and whether the rehabilitation will correct the potential issue, if possible. This should be clarified and resolved.

**C. Home Inspection Report by Dave Kaufmann dated May 9, 2006**

1. All items listed as requiring correction in Part 2 should be incorporated into the rehabilitation scope. In addition, any issues listed that need further evaluation should be undertaken prior to the start of rehabilitation and added to the scope of rehabilitation if required.
2. The roof system should be replaced as part of the rehabilitation.
3. The report should be issued to CalHFA/ Bank of America and include reliance language.
4. When repairs are completed, funds should be allocated for patching and repair of adjacent finishes.

**D. Environmental Remediation Technologies Report dated May 12, 2006**

1. Lead testing should comply with HUD standards. The testing only included three samples total and did not test each component determined by substrate and color as required by these guidelines. In particular, it did not appear that the amount of testing was adequate, and samples were not taken at the substrates most likely to yield a positive result (no trim samples were taken even though paint used at these substrates generally have a much higher lead content).
2. The area in which ERT detected high concentrations of water/ moisture at unit 1527 Master Bathroom and Hallway bathroom should be investigated further prior to start of rehabilitation.
3. The report should be issued to CalHFA/ Bank of America and include reliance language.

**E. Roof Inspection Report**

The roof inspection report doesn't correlate to the Home Inspection Report, even though these were authored by the same party. The Home Inspection Report notes several deficiencies and in future, these should be referenced in the Roof Inspection Report.

**F. Sewer Inspection Report by JMB Plumbing dated May 10, 2006**

The report should be signed by the Inspector

**G. Other Items**

Develop a maintenance plan for the property which incorporates any recommendations from the Home Inspection Report, the Structural Pest Control Report and the replacement reserve analysis.

**II. SCOPE OF WORK**

**A. Detailed Scope of Work**

1. Provide a detailed scope of work in a narrative format so that the scope of planned rehabilitation is easy to comprehend.
2. Provide sketches of changes to partition walls and preliminary specifications as part of the Final Proposal Submittals in order to clarify the intended scope of work.
3. Provide plans (or at minimum sketches of changes to partition walls), shop drawings and specifications as part of the Pre-Hard Cost Submittals in order to further define/clarify the intended scope of work.
4. The replacement reserve analysis has not yet been completed. All items that are required in order to show a balanced reserve should be added to the rehabilitation scope, pursuant to the analysis.

**B. Line Item Budget**

1. The estimated detailed scope/budget should be further refined. (For example, we would anticipate greater costs for stucco and drywall patching than the amounts currently budgeted. The prices for mechanical systems seem on the high side.)
2. Clarify whether new windows will be provided throughout this project. The line item in the budget specifies a cost of \$7,000 but the Bid Qualifications limit the cost of windows at the consumer side to \$5,000. Please clarify.
3. Clarify what the line item for base cabinets at the service provider side refers. (The cabinets were reportedly brand new, only base cabinets are specified – not wall cabinets so they wouldn't match and the price for the base cabinets is much lower than that for the consumer side.)

**C. Room Design/Site Selection Criteria**

1. Indicate that all items required by the Regional Centers are included in the scope of work.
2. List which recommended items are included in scope.
3. List all other recommended items as alternates within the scope of work, and prioritize them.

**D. Construction Inspector's Report**

1. Provide photographs of the site.
2. Provide a replacement reserve analysis.
3. Provide a budget analysis.

**CALIFORNIA HOUSING FINANCE AGENCY,**  
a public instrumentality and political subdivision of the  
State of California

By: Edwin C. Gipson II

Name: EDWIN C. GIPSON II

Title: Chief, Multifamily

Date: June 7, 2006

# BAHP Pro Forma

PR-1

6.12.06

FTH Remodel  
Tax Exempt

Note: Enable Circular References Before Use

Home Type:   
Project Location :  
SARC  
RCEB  
GGRC

HCS Term: (1)  
Bofa Cushion: (2)  
Bofa Term  
Bidg SF  
Site SF  
Color Key:

3 months  
11 months  
Tan = BoFA Cushion  
Clear = Locked

## RESERVE CALCULATION

### Construction Interest Reserve Assumptions

Current Daily LIBOR Rate (3)   
Bank of America Spread  
HCS Construction Rate Cushion  
HCS Construction Interest Rate Assumption (4)  
Bank of America Spread  
Bank of America Interest Reserve Cushion  
Bank of America Interest Rate Assumption (5)

<<get from HCS  
2.30%  
1.00%  
8.41%  
2.30%  
1.50%  
8.91%

### CalHFA Permanent Debt Service Reserve Assumptions

Taxable Base Rate (For-Profit Provider)  
CalHFA Spread  
CalHFA Cushion  
Estimated Permanent Taxable Interest Rate  
Tax-Exempt Base Rate (Nonprofit Provider)  
CalHFA Spread  
CalHFA Cushion  
Estimated Permanent Tax-Exempt Rate  
Amortization Period

get from HCS>>  
get from HCS>>  
get from HCS>>  
7.60%  
1.50%  
0.50%  
7.10%  
15 years

## MASTER BUDGET/LANES

	Pro Forma Budget	Initial Proposal	HCS Projection
1 Land Cost	\$ 855,000		
2 Legal/Brokers Fees	\$ -		
3 Demolition	\$ -		
4 Off-site Improvements	\$ -		
<b>TOTAL LAND COSTS</b>	<b>\$ 855,000</b>	<b>\$ -</b>	<b>\$ 875,150</b>
1 Improvements - Master Developer	\$ 281,675	\$ -	\$ 297,976
General Constuction (from FLG Estimate)	\$ 265,000		
Site Work (Bid Divisions 1, 2 & 3 from FLG Estimate)	\$ 10,000		
Haz Mat/ Termitte Abatement Sub	\$ 6,675		
2 Contractor's Overhead	\$ 17,188	\$ -	\$ 18,206
Straight Overhead	\$ 13,750	\$ -	\$ 14,565
Contractor's Profit	\$ 3,438	\$ -	\$ 3,641
3 Contractor's Profit	\$ 14,438	\$ -	\$ 15,293
<b>Sub-Total Hard Costs</b>	<b>\$ 313,330</b>	<b>\$ -</b>	<b>\$ 331,476</b>
4 Hard Cost Contingency	\$ 31,330	\$ -	\$ 33,148
<b>TOTAL HARD COSTS</b>	<b>\$ 344,660</b>	<b>\$ -</b>	<b>\$ 364,623</b>
1 Interest During Loan (6)	\$ 77,449	\$ -	\$ 80,592
2 Title (Ins. and Recording) Fees at Site Purchase	\$ 4,800	\$ -	\$ 4,800
3 Property Taxes (7)	\$ 7,125	\$ -	\$ 7,293
4 Insurance	\$ 2,117	\$ -	\$ 2,117
5 Tenant Relocation Costs	\$ -	\$ -	\$ -
6 Appraisal (as-is) at Site Purchase	\$ 675	\$ -	\$ 675
<b>Sub-Total Soft Costs</b>	<b>\$ 92,166</b>	<b>\$ -</b>	<b>\$ 95,477</b>
<b>TOTAL PROJECT COSTS</b>	<b>\$ 436,826</b>	<b>\$ -</b>	<b>\$ 460,099</b>

	FINAL PROPOSAL (Lender Consensus)	Variance
1 Land Cost	\$ 875,150	\$ -
2 Legal/Brokers Fees	\$ -	\$ -
3 Demolition	\$ -	\$ -
4 Off-site Improvements	\$ -	\$ -
<b>TOTAL LAND COSTS</b>	<b>\$ 875,150</b>	<b>\$ -</b>
1 Improvements - Master Developer	\$ 297,976	\$ -
General Constuction (from FLG Estimate)	\$ 276,131	\$ -
Site Work (Bid Divisions 1, 2 & 3 from FLG Estimate)	\$ 15,170	\$ -
Haz Mat/ Termitte Abatement Sub	\$ 6,675	\$ -
2 Contractor's Overhead	\$ 18,206	\$ -
Straight Overhead	\$ 14,565	\$ -
Contractor's Profit	\$ 3,641	\$ -
3 Contractor's Profit	\$ 15,293	\$ -
<b>Sub-Total Hard Costs</b>	<b>\$ 331,476</b>	<b>\$ -</b>
4 Hard Cost Contingency	\$ 33,148	\$ -
<b>TOTAL HARD COSTS</b>	<b>\$ 364,623</b>	<b>\$ -</b>
1 Interest During Loan (6)	\$ 126,969	\$ 46,378
2 Title (Ins. and Recording) Fees at Site Purchase	\$ 7,800	\$ -
3 Property Taxes (7)	\$ 10,028	\$ 2,735
4 Insurance	\$ 2,117	\$ -
5 Tenant Relocation Costs	\$ -	\$ -
6 Appraisal (as-is) at Site Purchase	\$ 675	\$ -
<b>Sub-Total Soft Costs</b>	<b>\$ 147,589</b>	<b>\$ 49,113</b>
<b>TOTAL PROJECT COSTS</b>	<b>\$ 512,212</b>	<b>\$ 49,113</b>

1	Appraisal (as stab'd)		\$	300	\$	-	\$	300	\$	300	\$	-
2	Legal Fees at Loan Purchase		\$	250	\$	-	\$	250	\$	2,000	\$	-
3	Title (Ins. and Recording) Fees at Loan Purchase		\$	600	\$	-	\$	600	\$	600	\$	-
4	Tax Service Contract		\$	100	\$	-	\$	200	\$	200	\$	-
5	CallHFA Debt Reserve - paid at Ln. Purch <sup>(8)</sup>	Tax-Exempt or Taxable Rate	\$	194,846	\$	-	\$	191,684	\$	207,578	\$	15,894
<b>Sub-Total Other Soft Costs</b>												
1	Construction Consultant		\$	189,026	\$	-	\$	189,026	\$	210,529	\$	45,904
	Cost Estimator		\$	1,500	\$	-	\$	1,500	\$	1,500	\$	-
	Water Pressure Test (licensed homes only)		\$	3,750	\$	-	\$	4,150	\$	4,150	\$	-
	Termite & Dry Rot Inspection		\$	600	\$	-	\$	600	\$	600	\$	-
	Roof Inspection (if required)		\$	250	\$	-	\$	300	\$	300	\$	-
	Property Condition Report (Home Inspection)		\$	750	\$	-	\$	750	\$	750	\$	-
	Lead Inspection (if built before 1978)		\$	500	\$	-	\$	1,800	\$	1,800	\$	-
	Asbestos Inspection (if built before 1981)		\$	500	\$	-	\$	Included	\$	Included	\$	-
	Mold & Mildew Inspection		\$	250	\$	-	\$	Included	\$	Included	\$	-
	Sewer Cam Inspection		\$	650	\$	-	\$	650	\$	650	\$	-
	Fire Pre-Inspection (licensed homes only)		\$	-	\$	-	\$	-	\$	-	\$	-
3	Permits & Municipal Fees		\$	4,500	\$	-	\$	4,500	\$	4,500	\$	-
4	Furnishings		\$	-	\$	-	\$	-	\$	-	\$	-
5	Other Professional Fees		\$	23,500	\$	-	\$	23,500	\$	23,500	\$	-
	Architecture & Engineering		\$	20,000	\$	-	\$	20,000	\$	20,000	\$	-
	Consulting		\$	3,500	\$	-	\$	3,500	\$	3,500	\$	-
6	Environmental Studies		\$	-	\$	-	\$	-	\$	-	\$	-
7	Gen. Overhead (paid to HCS) - 5% of adj. costs*		\$	66,745	\$	-	\$	68,918	\$	69,337	\$	420
8	Developer Profit (paid to HCS) - 5% of adj. costs*		\$	66,745	\$	-	\$	68,918	\$	69,337	\$	420
	Dev. Profit (90% of th) - paid at Stabilization		\$	60,070	\$	-	\$	62,026	\$	62,404	\$	-
	Dev. Profit (10% of th) - paid at Ln. Purchase		\$	6,674	\$	-	\$	6,892	\$	6,934	\$	-
9	Share of Credit Facility Costs Note		\$	26,295	\$	-	\$	26,295	\$	30,357	\$	4,062
<b>Sub-Total Other Soft Costs</b>												
			\$	193,035	\$	-	\$	197,780	\$	202,582	\$	4,902
1	Soft Cost Contingency		\$	19,303	\$	-	\$	19,778	\$	20,268	\$	490
<b>TOTAL SOFT COSTS</b>												
			\$	490,600	\$	-	\$	506,069	\$	581,217	\$	70,398
<b>TOTAL COSTS</b>												
			\$	1,690,230	\$	-	\$	1,745,842	\$	1,820,990	\$	70,398
<b>SOURCE: BANK LOAN</b>												
			\$	1,690,230	\$	-	\$	1,745,842	\$	1,820,990	\$	70,398
<b>BANK LOAN LESS CALHFA DEBT RESERVE</b>												
			\$	1,505,384	\$	-	\$	1,554,158	\$	1,613,413	\$	59,254

<b>OPERATIONS (MONTHLY)</b>												
1	Monthly Debt Service/Base Rent	Tax-Exempt or Taxable Rate	\$	15,192	\$	15,429	\$	15,692	\$	16,984	\$	1,292
2	Annual Debt Service/Base Rent		\$	182,307	\$	185,148	\$	188,305	\$	203,813	\$	15,508

<b>OPERATIONS (MONTHLY)</b>												
1	Property Management Fee	5% of base rent	\$	760	\$	771	\$	785	\$	849	\$	65
2	PG&E	by tenant	\$	900	\$	900	\$	900	\$	900	\$	-
4	Water & Sewer	by tenant	\$	-	\$	-	\$	-	\$	-	\$	-
4	Trash	by tenant	\$	-	\$	-	\$	-	\$	-	\$	-
5	Landscape Maintenance	by tenant	\$	100	\$	100	\$	100	\$	100	\$	-
6	Maintenance & Repairs	by tenant	\$	100	\$	100	\$	100	\$	100	\$	-
7	Property Taxes <sup>(9)</sup>	by tenant	\$	-	\$	-	\$	-	\$	912	\$	912
		Enter "0" if Exempt ->	\$	1,25%	\$	-	\$	-	\$	584	\$	584
8	Property Insurance	by tenant	\$	584	\$	584	\$	584	\$	584	\$	-
9	Replacement/Repair Reserve: by owner		\$	200	\$	200	\$	200	\$	200	\$	-
<b>Total Monthly Operating Expenses</b>												
			\$	2,644	\$	2,655	\$	2,669	\$	3,645	\$	976
<b>Total Annual Operating Expenses</b>												
			\$	31,723	\$	31,865	\$	32,023	\$	43,738	\$	11,715

<b>Monthly Debt Service and Operating Total Rent</b>	\$ 17,836	\$ 18,084	\$ 18,361	\$ 20,629	\$ 2,269
<b>Annual Debt Service and Operating Total Rent</b>	\$ 214,031	\$ 217,013	\$ 220,529	\$ 247,551	\$ 27,223

**Sources of Funds**

Predevelopment Loan Fund					
Land + Hard Costs					
Permanent Financing					
<b>Areacost Summary</b>					
Gross Square Footage (GSF)	29,400	\$ -	\$ 30,405	\$ 30,405	
Beds Per Building	1,199,630	\$ -	\$ 1,239,773	\$ 1,239,773	
Lease Per GSF (annual)	1,690,230	\$ -	\$ 1,745,842	\$ 1,820,990	
Lease Cost Per Bed	2198	2198	2198	2198	
	3	3	3	3	
	97	99	100	113	
	71,344	72,338	73,443	82,517	

**General Notes:**

- (1) Equal to the number of months from Acquisition to Schedule 3 Acceptance by the Steering Committee.
- (2) Bank of America is requiring an additional 3 month cushion to the projected HCS term.
- (3) Rate provided to HCS by Bank of America.
- (4) HCS is using a 1% interest rate cushion to account for increases in LIBOR.
- (5) Bank of America is requiring a 1.5% interest rate cushion in the event of additional increases in LIBOR.
- (6) HCS Construction Interest Reserve Calculation:  
 $(\text{HCS Monthly Rate} \times \text{Bank Loan less CalHFA Reserve}) \times \text{HCS Term} + (\text{HCS Monthly Rate} \times 20\% \times \text{Bank Loan less CalHFA Reserve}) \times (\text{HCS Term} - 3 \text{ months})$   
 Bank of America Construction Interest Reserve Calculation:  
 $(\text{BoFA Monthly Rate} \times 80\% \times \text{Bank Loan less CalHFA Reserve}) \times \text{BoFA Term} + (\text{BoFA Monthly Rate} \times 20\% \times \text{Bank Loan less CalHFA Reserve}) \times (\text{BoFA Term} - 2 \text{ months})$
- (7) Property Tax Rate to be customized to the location of each property.
- (8) HCS Assumption: Always use Taxable Rate.
- (9) HCS Assumption: For Nonprofit Service Providers who qualify for Property Tax Exemption, use zero.
- (10) CalHFA Construction Consultant to complete a Replacement Reserve Analysis based on Scope of Work and Useful Life Analysis. Minimum reserve is \$2400/year.

**Lender Cushion Notes:**

- a Increased allowance for Interest Reserve due to 3 month cushion and 1.5% rate cushion required by Bank of America.
- b Increased allowance for Property Tax due to 3 month cushion required by Bank of America.
- c Bank of America & CalHFA requires that the CalHFA Debt Service Reserve always Taxable Rates in the event a Non-Profit Provider falls through.
- d Overhead is calculated based on the Total Costs (less select expenses outlined in the HDA) which are increased because of Lender cushions.
- e Developer Profit is calculated based on the Total Costs (less select expenses outlined in the HDA) which are increased due to Lender cushions.
- f Credit Facility Costs Note includes Legal Fees and Construction Loan Fees. Lender requires the costs be allocated across 56 homes, rather than the 71 projected.
- g Soft Cost Contingency is a percentage basis of Soft Costs, which are increased due to Lender cushions.
- h Base Rent required by Bank of America to be used in the Long Term Residency Lease at acquisition. Rate will be reduced at permanent financing.
- i Unit Property Tax Exemption is granted. Lenders require that Property Taxes be included in the Lease Amount. The lease amount will be modified at Permanent Closing.
- j The Long Term Residency Lease needs to reflect this conservative amount prior to Acquisition of the property.