





# BOARD OF DIRECTORS

Thursday, September 7, 2006

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

10:00 a.m.

1. Roll Call.
2. Approval of the minutes of the July 6, 2006 Board of Directors meeting.
3. Chairman/Executive Director comments.
4. Update on Bay Area Housing Plan. (Kathy Weremiuk/Edwin Gipson)
5. Status report of the Mortgage Insurance Program. (Chuck McManus)
6. Status of REO Sales. (Margaret Alvarez)
7. Report from the Audit Committee Chairman regarding the first meeting of CalHFA's Board of Directors' Audit Committee. (Jack Shine)
8. Discussion, recommendation and possible action relative to the organizational documents and procedures of CalHFA's Board of Directors' Compensation Committee. (Terri Parker)  
**Resolution 06-16** ..... 111
9. Reports ..... 119
10. Discussion of other Board matters.
11. Public testimony: Discussion only of other matters to be brought to the Board's attention.

**\*\*NOTES\*\***

**HOTEL PARKING:** Day Guest Parking Rate: Guests not registered with the hotel will receive discounted parking at \$7.00 inclusive of tax, per car, with no in and out privileges.

**FUTURE MEETING DATE:** Next CalHFA Board of Directors Meeting will be November 9, 2006, at the Hilton Burbank Airport & Convention Center, Burbank, California.

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**STATE OF CALIFORNIA**  
**CALIFORNIA HOUSING FINANCE AGENCY**

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**BOARD OF DIRECTORS**  
**PUBLIC MEETING**

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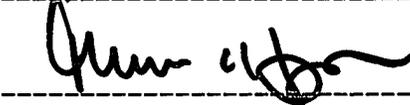
**Hyatt Regency**  
**1209 L Street**  
**Sacramento, California**

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

**Thursday, July 6, 2006**  
**9:32 a.m. to 11:37 a.m.**

09/07/2006

Attest:



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

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**ORIGINAL**

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**STATE OF CALIFORNIA**  
**CALIFORNIA HOUSING FINANCE AGENCY**

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**BOARD OF DIRECTORS**  
**PUBLIC MEETING**

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**1209 L Street**  
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**A P P E A R A N C E S****Directors Present:**

JOHN A. COURSON, Chairperson  
President/CEO  
Central Pacific Mortgage

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

PETER N. CAREY  
President/CEO  
Self-Help Enterprises

LYNN L. JACOBS  
Director  
Department of Housing and Community Development  
State of California

CAROL J. GALANTE  
President  
Bridge Housing

THERESA A. PARKER  
Executive Director  
CalHFA

JACK SHINE  
Chairman  
American Beauty Development Co.

TERRY ROBERTS  
for Sean Walsh  
Governor's Office of Planning and Research  
State of California

WILLIAM J. PAVAO  
for Philip Angelides  
State Treasurer  
State of California

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**A P P E A R A N C E S, (continued)****CalHFA Staff Present:**

BRUCE D. GILBERTSON  
Director of Financing  
Fiscal Services

EDWIN C. GIPSON, II  
Chief Multifamily Lending

THOMAS C. HUGHES  
General Counsel

DENNIS MEIDINGER  
Comptroller

JOJO OJIMA  
Office of the General Counsel

KATHY WEREMIUK  
Multifamily Loan Officer

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**Speakers from the Public:**

DARRELL STEINBERG  
Chair  
Mental Health Services Oversight and Accountability  
Commission

DR. STEVEN MAYBERG  
Director  
California Department of Mental Health

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1 BE IT REMEMBERED that on Thursday, July 6, 2006,  
2 commencing at the hour of 9:32 a.m., at the Hyatt  
3 Regency, Regency Ballroom E/F, 1209 L Street,  
4 Sacramento, California, before me, YVONNE K. FENNER, CSR  
5 #10909, RPR, the following proceedings were held:

6 --oOo--

7 **Item 1. Roll Call**

8 CHAIRPERSON COURSON: I will call the Board  
9 meeting to order, and we will call the roll.

10 MS. OJIMA: Thank you.

11 Mr. Pavao for Mr. Angelides.

12 MR. PAVAO: Here.

13 MS. OJIMA: Mr. Carey.

14 MR. CAREY: Yes, here.

15 MS. OJIMA: Mr. Czucker.

16 (No audible response.)

17 MS. OJIMA: Ms. Galante.

18 MS. GALANTE: Here.

19 MS. OJIMA: Ms. Jacobs.

20 MS. JACOBS: Here.

21 MS. OJIMA: Mr. Augustine for Ms. McPeak.

22 MR. AUGUSTINE: Here.

23 MS. OJIMA: Thank you.

24 Mr. Morris.

25 (No audible response.)

1 MS. OJIMA: Mr. Shine.

2 MR. SHINE: Here.

3 MS. OJIMA: Mr. Walsh -- oh, I'm sorry.

4 Ms. Roberts for Mr. Walsh.

5 MS. ROBERTS: Here.

6 MS. OJIMA: Thank you.

7 Mr. Genest.

8 (No audible response.)

9 MS. OJIMA: Ms. Parker.

10 MS. PARKER: Here.

11 MS. OJIMA: Mr. Courson.

12 CHAIRPERSON COURSON: Here.

13 MS. OJIMA: We have a quorum.

14 CHAIRPERSON COURSON: Okay. We do have a quorum.

15 --o0o--

16 **Item 2. Approval of the minutes of the March 9 and**  
17 **May 11, 2006 Board of Directors meetings**

18 CHAIRPERSON COURSON: And our first -- our  
19 first order of business is to approve two sets of  
20 minutes. If you'll recall at our last meeting, the  
21 minutes from -- of March 9th had some incorrect  
22 identifications and some typos, so we withheld those  
23 from approving them. They are in your board book, and  
24 a motion is in order to approve the minutes of the  
25 March 9th meeting.

1 MS. GALANTE: I'll move.  
2 CHAIRPERSON COURSON: Moved by Ms. Galante.  
3 Second?  
4 MR. PAVAO: Second.  
5 CHAIRPERSON COURSON: Okay. Mr. Pavao second.  
6 Any discussion?  
7 Seeing none, let's call the roll.  
8 MS. OJIMA: Thank you.  
9 Mr. Pavao.  
10 MR. PAVAO: Aye.  
11 MS. OJIMA: Mr. Carey.  
12 MR. CAREY: Yes.  
13 MS. OJIMA: Ms. Galante.  
14 MS. GALANTE: Yes.  
15 MS. OJIMA: Ms. Jacobs.  
16 MS. JACOBS: Abstain.  
17 MS. OJIMA: Thank you.  
18 MS. JACOBS: I wasn't here.  
19 MS. OJIMA: Mr. Augustine.  
20 MR. AUGUSTINE: Abstain.  
21 MS. OJIMA: Thank you.  
22 Mr. Shine.  
23 MR. SHINE: Aye.  
24 MS. OJIMA: Mr. Courson.  
25 CHAIRPERSON COURSON: Yes, aye.

1 MS. OJIMA: It did not pass.

2 CHAIRPERSON COURSON: Okay. We will have to --

3 MR. AUGUSTINE: Then let's do the roll again.  
4 I'll change my abstain to aye then.

5 MS. OJIMA: Thank you, Mr. Augustine.

6 The minutes have been approved.

7 CHAIRPERSON COURSON: Thank you. Thank you,  
8 Mr. Augustine.

9 And the second set of minutes are those of our  
10 last meeting from May the 11th. If you've had a chance  
11 to review those, a motion would be in order to approve  
12 the minutes from the --

13 MR. CAREY: Move approval.

14 MR. AUGUSTINE: Second.

15 CHAIRPERSON COURSON: Mr. Carey moves and Mr.  
16 Augustine seconds.

17 Any discussion?

18 Call the roll. Oh, wait a minute, I'm sorry.

19 MR. SHINE: Well, a minor little detail we  
20 forgot on page 222, just a little typo. You got Czucker  
21 down as chairperson on line 13. I believe that's you.

22 CHAIRPERSON COURSON: On page 222, line 13.

23 MR. SHINE: That should be you.

24 MS. PARKER: Strike out Czucker and just leave  
25 it as chairperson.

## Board of Directors Meeting - July 7, 2006

1 MR. SHINE: That's good.

2 CHAIRPERSON COURSON: Okay. We will strike

3 Czuker and just leave Chairperson.

4 Any other changes?

5 We do have a motion and a second, and I trust

6 that the mover of the motion and the second are moving

7 as amended.

8 MR. CAREY: Yes.

9 CHAIRPERSON COURSON: Okay. Call the roll.

10 MS. OJIMA: Thank you.

11 Mr. Pavao.

12 MR. PAVAO: Yes.

13 MS. OJIMA: Mr. Carey.

14 MR. CAREY: Yes.

15 MS. OJIMA: Ms. Galante.

16 MS. GALANTE: Yes.

17 MS. OJIMA: Ms. Jacobs.

18 MS. JACOBS: Yes.

19 MS. OJIMA: Mr. Augustine.

20 MR. AUGUSTINE: Yes.

21 MS. OJIMA: Mr. Shine.

22 MR. SHINE: Yes.

23 MS. OJIMA: Mr. Courson.

24 CHAIRPERSON COURSON: Yes.

25 MS. OJIMA: The minutes for the May 11th board

1 meeting have been approved.

2 CHAIRPERSON COURSON: Thank you.

3 --o0o--

4 **Item 3. Chairperson/Executive Director comments**

5 CHAIRPERSON COURSON: I'll just make a couple  
6 of very brief comments this morning, and I think I  
7 alluded to this at our last meeting as an update. As  
8 many of you know, for a number of years one of the  
9 major programs of our single family initiatives have  
10 been the FHA loans. And FHA clearly has seen a drastic  
11 reduction in their participation and share of the  
12 market over the last few years, very dramatic. And  
13 there's been a very intense initiative by the  
14 administration and the Congress to revitalize FHA. And  
15 what had been sort of languishing now all of a sudden  
16 is moving at what in Washington could be considered  
17 warp speed in revitalizing FHA.

18 They're going to be doing -- increasing the  
19 loan limits pretty dramatically. That certainly will  
20 affect us here in California. They are going to be  
21 doing a risk-based pricing of their mortgage insurance  
22 premiums so they'll base the premium upon the credit  
23 quality of the buyer. They are going to be -- part of  
24 the initiative is to make hundred-percent loans as  
25 opposed to some of the nonprofit down payment

1 assistance. And there's just a number of things that  
2 they're doing administratively.

3 So as we move forward in our own lending, I  
4 think we'll probably -- my guess is if, in fact, that  
5 legislation does move through in this session of  
6 Congress, that it will -- could dramatically affect the  
7 product mix and the insurance that we have on loans  
8 through the FHA. That will be something that we should  
9 watch with interest, and certainly the industry is.

10 The second thing I mention, and this is not new  
11 news, but I'll certainly -- I think most of you are  
12 aware that Secretary McPeak, Sunni Wright McPeak, has  
13 announced her resignation as of November 20th, so she's  
14 not leaving immediately, but will be with us till  
15 September the 20th. She's accepted a new position in  
16 the Bay Area, and we always wish the Secretary well.  
17 It's been enjoyable working with her, and I'm sure  
18 we'll have an opportunity, hopefully, to recognize her  
19 here before she leaves on the 20th of November.

20 Having said that, I will turn to our executive  
21 director, Terry Parker.

22 MS. PARKER: Thank you, Mr. Chairman.

23 Thank you, Members, for your attending the  
24 Board. With a mere seven individuals, we are always  
25 concerned about having a quorum.

1           Just a couple of sort of newsy notes, I wanted  
2 to report to all of you that we finished our year-end  
3 production with records in the homeownership area. We  
4 did \$1.409 billion worth of first-time homebuyer  
5 homeownership loans. It's a new record for the Agency.  
6 And as part of it, it's also a new record for our  
7 mortgage insurance fund that's right now insuring  
8 approximately half of our first-time homebuyer loans.  
9 So we're very proud of the staff and their  
10 accomplishments in those areas.

11           I have no news or updates to you on hires for  
12 our vacancies in the homeownership and the mortgage  
13 insurance, but we will chat a little bit about that  
14 issue when we speak about compensation commission.

15           We do also want to introduce to you the new  
16 member of the Hawkins team that's representing Hawkins  
17 today, Russ Miller out of their San Francisco office.  
18 He and Stan Dirks are both here to represent us as our  
19 bond counsels.

20           And last, just a note of information is the  
21 Governor's -- the Governor had a policy academy a  
22 couple weeks ago in Pacific Grove to have the State  
23 work on developing a plan to reduce chronic  
24 homelessness. I participated, along with colleagues  
25 from HCD and the Governor's Office of Planning and

1 Research. And I think we're well on our way to  
2 submitting to the Interagency Council a plan for  
3 California so that we will be one of the now 49 states  
4 to have a plan instead of the two states in the nation  
5 to not have a plan.

6 And with that, Mr. Chairman, that concludes my  
7 remarks.

8 CHAIRPERSON COURSON: Okay. Thank you, Terry.

9  
10 --oOo--

11 **Item 4. Presentation to the Board on the Proposition**  
12 **63/Homeless Phase II Initiative**

13 CHAIRPERSON COURSON: Talking about  
14 homelessness, we, as you know, have spent a good deal  
15 of time in our board meetings with Terry giving us  
16 updates on our role in the initiative for dealing with  
17 homelessness. And we have two individuals with us  
18 today that join us to talk about Prop 63 and the  
19 homelessness and the Phase II Initiative: Dr. Steven  
20 Mayberg and -- Dr. Mayberg is the director of the  
21 California Department of Mental Health -- and Darrell  
22 Steinberg, who many of us know. And Darrell is the  
23 chair of the Mental Health Services Oversight and  
24 Accountability Commission. There's got to be an  
25 acronym in there somewhere I'm missing. But also

1 really Darrell's the -- we'll call him the father of  
2 Prop 63 and also is a candidate for the state Senate.

3 And I think if you fellows would join us,  
4 Darrell and Dr. Mayberg.

5 MR. STEINBERG: Do we take the oath?

6 (Laughter.)

7 CHAIRPERSON COURSON: No one else has, so  
8 there's no reason.

9 MS. PARKER: I'm going to come join my partners  
10 in crime here.

11 MR. STEINBERG: Absolutely.

12 MS. PARKER: It's really my pleasure to have  
13 both of these fine gentlemen join us today and talk a  
14 little bit about the Governor's initiative on chronic  
15 homelessness, which we really refer to as Phase II.  
16 You all remember that a little over a year ago the  
17 Governor proposed Chronic Homelessness Initiative Phase  
18 I as part of his last year's budget to use some  
19 remaining Prop 46 funds along with some Prop 63 funds  
20 to launch about a \$50-million initiative to begin to  
21 develop housing for chronic homelessness.

22 At that point in time, there was really sort of  
23 another part of this initiative to be that was being  
24 discussed by Darrell Steinberg. And we thought that  
25 this would really be a great synergism to complement

1 what we had started, but really to launch it. And so  
2 we started having discussions a year ago about  
3 Darrell's concept and to be able to really fulfill what  
4 I think we would all sort of refer to as our vision and  
5 our dream.

6 So I've asked both of these key people to come  
7 and talk with you a little bit about what this  
8 initiative is, the complexity of it, the challenge  
9 before all of us, and actually what we really hope to  
10 be -- accomplish, which will be, we think from our  
11 standpoint, precedent setting in the country on the  
12 issue of chronic homelessness.

13 So with that.

14 MR. STEINBERG: Thank you. Thank you very  
15 much, Terry. Thank you for your outstanding work over  
16 the past months to help bring us to where we are today.

17  
18 Dr. Mayberg, the same thing.

19 This has been really an incredible effort that  
20 I wasn't sure would actually happen, but it has. And I  
21 want to thank the Board as well for your confidence in  
22 being willing to step out and to do something different  
23 and different in a way that we know is going to help  
24 thousands and thousands of people who frankly have been  
25 given up on in California.

1           A little brief history here: We passed Prop 63  
2 in 2004. The Mental Health Services Act provides about  
3 \$700 million and growing -- this year it's about  
4 \$1.1 billion a year -- for mental health services. The  
5 Act, of course, is in response to what most consider to  
6 be 40 years of an issue which, despite a lot of great  
7 leaders and a lot of great programs, is a forgotten  
8 issue. When we shut the state mental hospitals 40  
9 years ago, the deinstitutionalization, there was a  
10 promise made of a well-funded community mental health  
11 system that never happened.

12           When I got into the legislature in 1999, I  
13 introduced AB 34 and AB 2034 which, thanks again to the  
14 help of the prior governor and Dr. Mayberg's excellent  
15 implementation, we were able to put \$55 million on the  
16 street to provide outreach and comprehensive services  
17 to the homeless and mentally ill. The money was used  
18 for whatever it took, and we demonstrated outstanding  
19 outcomes for people in terms of reduced  
20 hospitalization, jail time, days of homelessness,  
21 increased employment.

22           Well, we passed Prop 63 in 2004, which was  
23 AB 2034 on steroids, as we like to say, being able to  
24 take what we had done over the five years and actually  
25 deliver those kinds of services to most all in need.

1 We recognized that housing is the literal foundation  
2 for helping people live with mental illness. Services  
3 without housing are ineffective. Housing without  
4 services for people living with chronic mental illness  
5 are ineffective. We have to combine the two.

6 And in the months after the passage of the Act,  
7 the light sort of went on for me in which I said to  
8 myself this is not one-time funding here. This funding  
9 stream will repeat itself every year and, in fact,  
10 according to the projections of the Franchise Tax  
11 Board, will grow. And so we have the ability to  
12 capitalize on this fund to address some of the priority  
13 capital needs of the population we are trying to serve.

14  
15 The Act itself requires that 10 percent of the  
16 first three years of funding be spent on capital, but  
17 that is a floor, not a ceiling. And so I suggested  
18 that we set aside 20 years' worth of funding, 20 years'  
19 worth of 10 percent, and capitalize on those dollars to  
20 build as much supportive housing as we can, combined  
21 with much of the remainder of the 90 percent of the  
22 Proposition 63 money to provide the services for people  
23 who will be housed.

24 To make a long story short, in working with the  
25 experts here, your department and Terry and with the

1 Department of Mental Health and with a number of other  
2 stakeholders and nonprofit housing community, the  
3 Corporation for Supportive Housing, Lehmann Brothers  
4 provided a lot of pro bono technical assistance, we  
5 began modeling what we could do with 20 years' worth of  
6 \$75 million a year, which is approximately 10 percent  
7 of the first year's Proposition 63 funding.

8 And we talked a lot about a bond versus a  
9 pay-as-you-go approach. And the bond itself, at least  
10 at this point, is problematic because -- because we  
11 didn't think about this issue when we drafted the  
12 initiative. We didn't specifically provide bonding  
13 authority in the initiative, and there's some legal  
14 ambiguity about whether we could do it or not.

15 What we settled on -- not just settled on, but  
16 we're very excited about -- is the Governor's executive  
17 order, which, of course, sets aside \$75 million a year,  
18 for 20 years, out of the Prop 63 fund to build  
19 supportive housing for people living with mental  
20 illness. You have told us -- your experts and the  
21 experts throughout the field have told us, that by  
22 putting those table stakes out there that we can  
23 leverage those dollars about three to one, which means  
24 that the 1.5 billion investment that we will make out  
25 of Proposition 63 can be leveraged to create four and a

1 half billion dollars' worth of actual investment to  
2 build at least 10,000 supportive housing units over the  
3 next 20 years.

4 And again, with all the appropriate creative  
5 financing that we will be leaning on your expertise to  
6 help us figure out, we want to build more of that  
7 housing sooner rather than later.

8 This initiative, small-I initiative, is  
9 consistent with the intent of those of us who pushed  
10 for Proposition 63 in the first place. We not only  
11 want to help thousands of people, but we want to  
12 demonstrate to the society that by helping people  
13 living with mental illness, we can make a difference in  
14 the quality of community life as well. We don't have  
15 to tolerate unending homelessness as an acceptable  
16 social condition in our society. People do not have to  
17 be forgotten.

18 And we are all about -- between the Department  
19 of Mental Health and the Oversight and Accountability  
20 Commission and all of the stakeholders involved in the  
21 implementation of this Act, we are about big impacts.  
22 This is the first. This is the first of our big,  
23 small-I initiatives within Prop 63 to demonstrate that  
24 we can make a visible difference to the people of  
25 California.

1           And I'm grateful and excited that we have now  
2 taken the first step to launch what I know will -- will  
3 make a great difference here in our state.

4           Thank you.

5           DR. MAYBERG: It's always great to work with  
6 someone who's a visionary and who has grand schemes,  
7 and Darrell has grand schemes. There's a downside to  
8 that because with every grand scheme, there's -- the  
9 devil's in the details. And that has been really  
10 important for us, to do it right. We want to make sure  
11 that this works.

12           Terry and I have spent a lot of time modeling  
13 this to see what are the issues we need to address, how  
14 do we deal with this, and how do we move this forward.

15           So I think I'll talk a little bit about how we've  
16 conceptualized this and where we're going to go.

17           I mean the idea of working together and having  
18 a partnership between the Housing Finance Authority and  
19 Mental Health goes back a number of years actually and  
20 started working together with the Supportive Housing  
21 Initiative and seeing how important linking both  
22 housing and services were, not just for persons with  
23 mental illness, but for persons with any disability.

24           And then it evolved to its next iteration  
25 through Prop 46 where there were some set-aside moneys

1 and seeing -- and then added to the mix then was  
2 Housing and Community Development, seeing that as state  
3 entities working together we do a much better job. And  
4 I think one of the things that Prop 63 really envisions  
5 is breaking down some of the silos and barriers. And  
6 when we talk about integrating services, we really need  
7 to integrate how we work together among different  
8 departments and different agencies in state government,  
9 and that's something that the Governor has really  
10 caught onto, and I think when you read the executive  
11 orders, it talks about us working together to make this  
12 happen.

13 So with that history of working together, it  
14 made it easier -- and having a long history of trust  
15 and respect. Terry and I go way back, when she was a  
16 teenager actually, a few years back.

17 MR. STEINBERG: I'd like to hear that story.

18 DR. MAYBERG: That was about ten years ago.

19 And knowing that services could make a  
20 difference through AB 34 and 2034, we began looking at  
21 what was the way to get housing done. Almost all of  
22 the research seems to indicate that success for people  
23 comes with housing first, that you don't have to get  
24 them stabilized and get everything in order before you  
25 put them in a house. Keeping the house, getting them

1 with a roof over their head, something that they take  
2 pride in, really motivates them to excel both in terms  
3 of treatment, getting jobs, and getting involved in the  
4 community.

5 So it was always in the back of our mind that  
6 we would do something, and then when the counties  
7 started developing their plans for what their needs  
8 were, with all the community inputs, almost every  
9 county listed housing as a really high priority and  
10 that any one-time money they had, they wanted to spend  
11 either on rent subsidies or housing starts.

12 And the one thing we realized in the mental  
13 health community is we have zero expertise in the  
14 housing world. We're great when it comes to the  
15 service world, but even understanding the language or  
16 the financing or all of the hurdles that housing folks  
17 have to go through was beyond our ability. And we  
18 didn't know how to broker relationships with developers  
19 and with even the folks doing the ten-year chronic  
20 homeless plans with a lot of the zoning issues that --  
21 because county mental health report is used to dealing  
22 with counties, not used to dealing with cities. So we  
23 figured we had to develop some sort of strategy to  
24 break through that.

25 So as Darrell said, we came up with this

1 concept of putting \$75 million a year in a pot to  
2 continue to grow to serve as the buy-down to make  
3 housing affordable and then look to see what kind of  
4 other financing could we link with that, leverage with  
5 that, ranging from conventional financing to special  
6 needs financing, tax credit, whatever it took to get to  
7 the point where we could stimulate development. And  
8 then, certainly in the development world, we realized  
9 that the Department of Mental Health doesn't have a  
10 huge credibility. We aren't seen as one of the prime  
11 developers of affordable housing.

12 But the Housing Finance Authority does, and  
13 that was what was really critical to us, to have more  
14 credibility and the ability to talk to lenders and  
15 developers to be able to get into this. And so it  
16 begins not only bringing new people to the table, but  
17 brings to us a way of reducing the State buy-in.

18 And I think when people always say, "Well, why  
19 would anyone build anything for someone who's mentally  
20 ill? Will they be good tenants? What's going to  
21 happen to the property," realizing that we're going to  
22 take responsibility for all the services and support,  
23 we're great tenants. You're guaranteeing rent. You're  
24 guaranteeing someone who's going to be available 24/7  
25 if a problem comes up to resolve that. So by linking

1 the services with the housing, it reduced any kind of  
2 anxiety and made it really a high priority.

3           Where we are now is stuck with issue of how do  
4 we get that money out? How do you develop these  
5 proposals? And counties have to do it. And the  
6 requirement we have is that counties have to not only  
7 develop the -- with whoever the housing plan, they have  
8 to guarantee that the supports are going to go with it.

9           So we have to develop the mechanism to do that,  
10 but even more importantly, we have to figure out what's  
11 an equitable way to distribute the money. You just  
12 can't give each county a certain amount, because some  
13 counties aren't ready or don't want necessarily to do  
14 this. Other counties, I guess to be blunt, are  
15 voracious about any money that's on the table, that  
16 they'd be more than willing to take anything that's out  
17 there, plus.

18           So to at least make this money available to  
19 every county in the state, every part of the state,  
20 because affordable housing and homelessness is an issue  
21 everywhere in the state, not just in our urban areas.  
22 And to be able to then link that with the financing  
23 schemes, and that's a little bit tricky.

24           And so in the next month or so, we're going to  
25 start meeting with -- Terry and I and our

1 representatives are going to start meeting with the  
2 counties, county mental health, bring in some technical  
3 experts, maybe bring in the Treasurer, because they  
4 have some -- some of the decisions to be made about how  
5 some of these tax credits stuff go out, and then also  
6 some of our housing folks, too, can talk about the  
7 technical necessity, what they need, so we can begin  
8 developing sort of the RFPs or the RFAs that counties  
9 can get doing this.

10 And as Darrell said, we'd like to do it in a  
11 way that cuts through a lot of the red tape. And one  
12 of the things we've learned from our Homeless  
13 Initiative I is that it's a little cumbersome right now  
14 to have people apply. And if we can streamline the  
15 application process and get the money out and still  
16 have the accountability and the guarantees, that's  
17 probably going to be better for us. And so that's  
18 where we stand on this.

19 And that -- I think both Darrell and Terry  
20 minimized the impact of this nationwide. When I talk  
21 about it, people think I misspoke when we talk about  
22 four and a half billion dollars to deal with over a  
23 20-year period. They say, "Million, right? Four and a  
24 half million?"

25 I go, "No, billion." And they just -- it's

1 mind-boggling that people just can't conceptualize that  
2 someone, a state, could make that much effort into  
3 doing something about affordable housing for persons  
4 with serious mental illness who are on the street and  
5 homeless. It's -- so it's gotten an awful lot of  
6 national attention, which puts the pressure on us to do  
7 it right, to be the model for the rest of the country.

8           And because of what we've done now, my  
9 counterparts in other states are starting to say, maybe  
10 a partner we really should call up to start working  
11 with is our Housing Finance Authority buddies. And we  
12 never thought of them as someone who would be a good  
13 partner, but that's one of the things that already  
14 spilled out from this.

15           So we're at the precipice of greatness, and so  
16 I think it really is working with you guys and with all  
17 of our constituents to make sure that we can have this  
18 happen.

19           And there is a fair amount of resistance, by  
20 the way, because this is so new and so different, that  
21 transformation is hard and change is hard.  
22 Everybody -- everybody loves progress but no one wants  
23 to change. And so convincing all our partners to do  
24 something different or new is -- is a little bit  
25 complicated and -- but we'll get there because the

1 values are right, the vision is right and the mechanism  
2 is right.

3 So I think we can probably answer any questions  
4 that you have.

5 CHAIRPERSON COURSON: We appreciate that. I  
6 will say that over the last couple of years I think  
7 this is a Board that has tried to spread its wings, if  
8 you will, as opposed to just make -- not just make, but  
9 making only single-family and multifamily loans, is  
10 look at ways to leverage our resources and our talent,  
11 both financial and our talent resources to do things a  
12 little bit outside the box, to do some different  
13 things. And this clearly is one that is a shining  
14 example of an ability to leverage our capability and  
15 our dollars along with the expertise from the mental  
16 health side to provide some special needs housing.

17 It's interesting, over the last couple of  
18 months I've given a speech to the National Association  
19 of Home Builders followed up by another talk with the  
20 Harvard University Real Estate Advisory Group. And  
21 part of it -- and the topic it seems is always housing  
22 in California. Everybody is -- there's sort of a  
23 curiosity thing about housing in California.

24 And when you come down, I always come down to  
25 talk about CalHFA and how we're trying to do things a

1 little bit outside the box and expand our scope. And  
2 you bring up the topic of homelessness, and you can  
3 sort of see there's a disconnect between talking about  
4 housing in California and homeless. They don't put it  
5 together until you talk about an initiative like this  
6 and talk about the ability to do public/private  
7 partnerships, enter interagency partnerships, and all  
8 of a sudden, the lights go on.

9 And I will tell you just in follow up to that,  
10 I have had -- in fact, I just had another call from the  
11 state of Colorado wanting to know if they can get some  
12 information. The chair of -- my peer there, my  
13 chair -- the fellow chair there is a good friend of  
14 mine. And also the same thing in Kentucky. Kentucky,  
15 as Terry knows, is on this. So we are looked at, and  
16 this initiative is exciting, but also, as Darrell and  
17 Dr. Mayberg said, it puts pressure on it to make sure  
18 we do it right. Because if we don't do it right  
19 obviously the first time, then the others look and say,  
20 "Well, that's that California again," so.

21 But it's exciting, and it does pique interest  
22 of those outside and even those, the homebuilders, who  
23 are here in the state saying, "This is -- this is a  
24 thing that we'd like to become involved in."

25 I always say, "Come on in. The more people,

1 the more capital, the more participation we can find,  
2 the better off we are."

3 Questions from the Board? Comments?

4 Ms. Galante.

5 MS. GALANTE: I had one. You know, Doctor, you  
6 mentioned that you don't know all the meshugas of  
7 housing terms, and I'm on the other side. I understand  
8 the housing terms and not the mental health terms. So  
9 you made a comment about this really has to happen  
10 through the counties, and, you know, I just wanted to  
11 know if you could expand on that. Because when I think  
12 about what you've outlined, you know, my mind goes to  
13 an RFP process that's run by the State that may have  
14 some, you know -- whatever element of the state that  
15 may have allocations by county but that, you know, to  
16 get the best kinds of proposals, when you talk about a  
17 mechanism, you know, you would be looking at housing  
18 developers and providers coming forth with a plan, you  
19 know.

20 And it seems to me that my mind goes, "Do you  
21 want to centralize that process?" So -- but I heard  
22 you say that the counties need to do this. So can you  
23 help me understand whether that's a requirement or...

24 DR. MAYBERG: You are a quick study. That is  
25 one of the dilemmas we have. The Prop 63 initiative

1 says that the services, all the services, need to be  
2 provided by the counties. And so clearly any of the  
3 supportive services need to be guaranteed by the  
4 counties. And so unless the county mental health has a  
5 relationship or works with a nonprofit or a developer  
6 or a builder or a city or any government entity, this  
7 doesn't work. So it forces that public/private  
8 partnership, and it forces a conversation that hasn't  
9 occurred before.

10 I don't think that mental health folks ever sit  
11 down with developers or with the people who do housing  
12 in cities, or in the counties even, to talk about how  
13 do we work together. So that -- that is the first  
14 part, that it -- and that makes it difficult. That's  
15 why we have to work this out.

16 And then the issue is really should this be a  
17 county by county allocation? Should this be a  
18 statewide pot? Should this be regional allocations?  
19 Should there be set-asides? One of the things that we  
20 will do is look at a number of proposals that --  
21 fortunately in the budget we have some money that we  
22 have in the department for technical assistance because  
23 we realize that most of the social service field,  
24 mental health field, really doesn't even know what the  
25 initials stand for, much less who the people are.

1           So we'll begin right away being able to provide  
2           some of those linkages and brokering some of those  
3           meetings at the local level. And I think secondly, we  
4           have some staff that are going to be dedicated solely  
5           to be available to provide that kind of technical  
6           assistance.

7           By linking this in with the Governor's Council  
8           on Homelessness and then we spent three days meeting  
9           with all of the representatives from cities and  
10          counties that are dealing with the issue, we see that  
11          the table is much larger than we ever expected. So it  
12          is going to take some -- some time to get everybody to  
13          be able to make the connections that are necessary.

14          And so those are the -- the visionary has a  
15          great idea, that those of us at the department level  
16          think it's a great idea, but there are a lot of those  
17          details to work out in that from our point of view, we  
18          mostly hear from the mental health side or social  
19          service side. It would be helpful if you could get us  
20          feedback, through Terry or directly to me, about where  
21          some of the rough spots are on the development side,  
22          because then we can do something to try to mitigate  
23          that.

24          MR. STEINBERG: May I just add I have another  
25          great idea here. Steve is right. The challenge here

1 with the implementation of the initiative is that it  
2 was written to ensure that it was -- that it is county  
3 driven with state approval and oversight.

4           Having said that, in my view, this housing  
5 initiative is a prime opportunity to begin thinking and  
6 acting regionally. I know, for example, that in the  
7 Bay Area, I'm not sure if it's the Bay Area Council or  
8 the Organization of Bay Area Governments, has actually  
9 talked about Prop 63 and housing and have talked about  
10 taking a regional approach. Because these problems  
11 know no artificial boundaries.

12           And what I would like to see is, as this  
13 develops, is to see a region like the Bay Area and  
14 other regions throughout the state put together, if you  
15 will, a consolidated proposal working with the  
16 development community to maximize the impact within a  
17 region. I sure hope that's where the conversation goes  
18 here, recognizing that the legal requirement is that  
19 the money flows through the counties.

20           And obviously the counties are our partners.  
21 They are the mental health -- they're not necessarily  
22 the direct-line providers, but they're the ones that  
23 work most closely with the providers. But with this  
24 initiative, we need to work with them to think about  
25 bringing their counties together on a regional

1 approach.

2 MS. PARKER: I'll add just a little bit more  
3 detail for the Board's consideration.

4 As Darrell has said -- and I think that we're  
5 sort of cutting layers of where we're trying to go and  
6 what we're trying to achieve. As I mentioned in my  
7 opening remarks, the complexity of this is tremendous.

8 The stakes are incredibly high.

9 And there is not a process yet developed for  
10 this. We have purposely done that so that we have the  
11 opportunity to be incredibly thoughtful in the process  
12 because we know that there are so many people involved,  
13 and we don't want to have a process put out there that  
14 immediately becomes the target for everybody to kind of  
15 go crazy about.

16 So our discussion is to really put together a  
17 small working group, and that working group would  
18 include at the state level the Department of Mental  
19 Health, CalHFA, HCD, probably the Governor's Office OPR  
20 because of their role in homelessness, but the  
21 counties, the county mental health directors, the  
22 county welfare directors, developers, and the  
23 constituent and advocacy groups, but a small group, to  
24 try to work on the development of the process. We want  
25 to have people who are knowledgeable about the mental

1 health side and also the developer's side so that what  
2 we put together as a process does not become so  
3 overwhelming and so much brain damage that nobody wants  
4 to do it.

5 And we also have the opportunity, though,  
6 whether or not we put in all the state levels all the  
7 different housing resources that come in, to see if we  
8 can do it in a way that doesn't have people apply for  
9 this money and then miss out on other pots of money.  
10 So Bill and I had discussion last week about the  
11 involvement of tax credit and also tax credit equity  
12 entities from the standpoint of what would they want to  
13 see in order to be able to participate in this  
14 initiative.

15 So that is our next focus, is really to work on  
16 a process that, you know, provides certainty for people  
17 of how to go about this. We want to use some of the  
18 models that the developers are familiar with on how  
19 housing credits or bond cap or whatnot is done so that  
20 they don't have to reinvent themselves, but there'd  
21 also be assurance at the local level that counties are  
22 making a choice about whether or not this development  
23 will receive service dollars and they want this project  
24 to be in their locality before it goes through the rest  
25 of the process. So that is our next challenge.

1 I also want to let the Board know that part of  
2 the reason for CalHFA to be involved in this is  
3 initially it's really seen as a pay-as-you-go process.

4 \$75 million a year in applicants for that. But we  
5 hope that over a period of time if the demand exceeds  
6 the amount of money that's available every year, that  
7 we can be looking at being creative and there will be a  
8 discussion hopefully at some point in time of seeing if  
9 we can develop a warehouse line so that CalHFA could be  
10 sort of fronting money to get these projects built as  
11 soon as possible. And that's, again, what role we see  
12 might be a possibility for us in the future.

13 CHAIRPERSON COURSON: Mr. Steinberg, I'll  
14 comment on your regional idea, too, because that's one  
15 of the things we've done is we think it's incredibly  
16 important for us to work closely with cities and  
17 counties, and we've taken on an initiative to work with  
18 mayors in identifying their needs to come in and do  
19 a -- leverage our resources with their needs. We  
20 started down the path with doing a Bay Area Regional  
21 Housing one-day meeting, just to identify in a region  
22 what we can do, rather than scatter and get into  
23 pockets of money, is there something within a region.

24 So Terry, that might be an opportunity as we  
25 move forward to get that initiative because we seem to

1 be able to gather those people and the housing folks  
2 together and put forth with them some ideas -- not just  
3 this one, but others too -- but clearly with the  
4 homeless thing, if we move down that path, we could  
5 certainly return to that whenever the time is right.

6 And I guess my second would be a question when  
7 the time is right. I'm sitting here, and I must say in  
8 all candor I'm hearing a process that sounds daunting,  
9 time-consuming, detailed, paper intensive, and so I  
10 guess my real question is when does the rubber hit the  
11 road? What is the time line for, in fact, getting  
12 through the process and starting to really put some  
13 sticks and bricks together?

14 DR. MAYBERG: To my staff's chagrin, I'm always  
15 unrealistic and make them deliver. We'd like to really  
16 be able to have something out on the street by January,  
17 is what we're aiming for.

18 One of the things we have to be aware of,  
19 though, is because it's \$75 million a year, we've got  
20 to let a little bit of money build up in this to be  
21 able to have some be there, so if we can have that  
22 within six months, I think that's a good beginning and  
23 that then at least we have two or three years' worth of  
24 money set aside and the initial projects can get going.

25 MS. PARKER: I think, Mr. Chairman, you

1 actually bring up a good point so that I can use this  
2 as an opportunity to inform the Board. I think as I  
3 have spoken at previous Board meetings about staff  
4 resources, that is a fundamental concern and has been a  
5 fundamental concern of mine, as you are well aware, for  
6 several months. We -- when we talked with this  
7 initiative and made the presentations to the Governor's  
8 Office about doing it, we really talked about the  
9 inability on CalHFA's part to be a good partner in this  
10 if we did not have the resources to essentially  
11 accomplish the complexity of this.

12 So we have sort of two necessities or two  
13 fundamentals in order to be able to be a partner at the  
14 table, and they really come about -- I want to give  
15 substantial credit to our bond counsel, Stan Dirks, who  
16 helped us throughout this process. I can't speak  
17 enough about Stan's good work.

18 First of all, he advised us that we needed to  
19 seek legislation to get a category of special needs  
20 housing. Right now our statutes really envision that  
21 we either have loans that are multifamily or they're  
22 homeownership, and they really don't deal with sort of  
23 the client that we're serving. And so we really have  
24 had tremendous complexities, as you are all well aware  
25 of, on the Bay Area Housing Plan. And when you're

1 looking at a four-and-a-half-billion-dollar program,  
2 you want your statutes to be able to be as smooth to  
3 provide your investors certainty. So we need to seek  
4 legislation in order to get that category established.

5

6 We also are using that as a vehicle, which  
7 we'll talk about later, to give us authority to be able  
8 to manage and retain and recruit qualified individuals,  
9 and that goes back to our salary-setting issues, which  
10 we'll talk about that probably a little bit later.

11 This legislation is just in its first policy  
12 committee last week. Very successfully moved out of  
13 that. Our expectation is that this legislation will  
14 move through the process over the next month and a  
15 half, be signed into law, which will give us this  
16 authority of this new special category.

17 As what Steve was saying, I think we're  
18 envisioning these work groups to come up with this  
19 process in the next months, fall, winter to be able to  
20 announce that for consideration and applications at the  
21 beginning of the year. That's what we sort of have as  
22 our time line. So that's how -- we need legislation.  
23 We need to do our working group, and we're planning the  
24 time frame to sort of complement one another.

25 CHAIRPERSON COURSON: Any questions, comments

1 from the Board?

2 MS. ROBERTS: I'd like to make a comment.  
3 Speaking as a representative of the Governor's Office  
4 of Planning and Research, which is a think tank within  
5 the Governor's Office and was originally charged with  
6 developing the thinking on the homelessness issue, I  
7 just want to say that we're very gratified that we've  
8 made the progress that we have today. There's so much  
9 collaboration. We're seeing great partnership and  
10 involvement by so many different entities, not just at  
11 the state level but in the private sector as well, at  
12 different levels of government.

13 There's been a lot of comments today about the  
14 sort of spotlight on California, putting pressure to  
15 deliver on this and we may be sort of a model for the  
16 rest of the nation, but we believe in California and  
17 Californians. We have a lot of creativity, a lot of  
18 persistence, a lot of brain power. And just the  
19 questions and discussion that I'm hearing today make me  
20 feel hopeful that we are going to be thoughtful about  
21 this and figure out a way to make this succeed.

22 Because I think everybody understands the  
23 Governor likes to think big. This is a very important  
24 issue for California, housing in general, but in  
25 particular for the homeless and for the mentally ill.

1 This is something that could be a legacy for all of us.

2 Thank you.

3 CHAIRPERSON COURSON: Thank you, Ms. Roberts.

4 Dr. Mayberg, Mr. Steinberg, thank you very much  
5 for coming.

6 MR. STEINBERG: Thank you.

7 CHAIRPERSON COURSON: And I assure you, you  
8 have the unqualified support of this Board as you move  
9 forward with your initiative. And Terry knows she's  
10 got the resources, and we'll get her the resources to  
11 perform.

12 DR. MAYBERG: Thank you.

13 MR. STEINBERG: Thank you very much. We look  
14 forward to coming back.

15 DR. MAYBERG: We'll come back in a year and  
16 tell you how well it's working.

17 --oOo--

18 **Item 5. Discussion, recommendation and possible action**  
19 **relative to the organizational documents and**  
20 **procedures of CalHFA's Board of Directors'**  
21 **Audit Committee**

22 CHAIRPERSON COURSON: The next item on our  
23 agenda is the discussion and consideration of the  
24 charter for the audit committee. You'll recall that at  
25 our last meeting we approved the formation of an audit

1 committee and confirmed and the Chair appointed Mr.  
2 Shine as the chair of that audit committee, and the  
3 other members being Mr. Carey and Ms. Galante.

4 The mission was at the last meeting to put  
5 together a charter, if you will, that would sort of  
6 guide the work. I will call it a job description, if  
7 you will, for the types of things to be considered and  
8 working jointly between the staff and the audit  
9 committee as part of their tasks. You have that  
10 charter. It has been sent to you, and I believe it's  
11 also at your table. And it's covered by a proposed  
12 resolution.

13 And Dennis is going to, I think, make a  
14 presentation, walk us through some of that, and then  
15 Mr. Shine may want to comment as the chair.

16 MR. MEIDINGER: Thank you, Mr. Chairman,  
17 Members of the Board, and members of the newly formed  
18 audit committee.

19 As you know, the audit committee was formed and  
20 created and approved in Resolution 06-08, and the main  
21 purpose of creating the committee is to provide the  
22 Board with the direct link and involvement with our  
23 auditors, agency management and staff in connection  
24 with our auditors and related financial matters.

25 So now that the committee has been formed and

1 appointed, the next step is to discuss processes and  
2 procedures of how the committee will operate. We  
3 therefore submit for your review and approval the audit  
4 committee charter.

5 This charter is similar to one used in other  
6 state housing finance agencies, Colorado being one of  
7 them. And we are proposing that this charter be used  
8 as a start and suggest that it can be reviewed and  
9 updated in the future as the focus of the committee may  
10 change.

11 If we take a look at the actual proposed audit  
12 committee charter, the first three items here, the  
13 mission, the composition and the authority are pretty  
14 much already set in stone by the Resolution 06-08. I  
15 just wanted to bring your attention that initially  
16 we're, at least as far as the number of meetings per  
17 year, proposing at least two per year as we do have two  
18 major funds, and they're both on different year-end  
19 dates. The Housing Finance Fund is on a state fiscal  
20 year basis, and so it has a fall audit. And our  
21 California Loan Insurance Fund is on a calendar basis,  
22 and so it has a spring audit.

23 If we actually take a look at the -- some of  
24 the oversight activities, I can go over them very  
25 quickly here. No. 1 is to periodically review the

1 Agency's policies and procedures, take a look at the  
2 Agency's significant risks, and what steps are being  
3 taken to minimize risk for the Agency.

4 Items No. 2, 3 and 4 involve direct involvement  
5 and interviews with our auditors. For instance, No. 2,  
6 that's where the auditors will come in and go over the  
7 scope of their audit. No. 3, after the completion of  
8 the audit, they'll go over the results of the audit.  
9 And No. 4, they'll present their findings and  
10 recommendations.

11 Item No. 5 is, as I said, where the committee  
12 can recommend to the Board any changes in scope as they  
13 go through perhaps a couple of audit reviews. And if  
14 they feel that the scope would possibly change, they  
15 would, in fact, make recommendations to change this  
16 charter, as a matter of fact.

17 Item No. 6 is reviewing the Agency's selection  
18 process. And this is rather significant because at the  
19 end of October, our Deloitte audit contract, which has  
20 been a multiyear contract, is going to be expiring, and  
21 so we are going to be going out to bid. It used to be  
22 that we would get eight different bids from the Big  
23 Eight. Now it's consolidated down to the Big Four. So  
24 we hope to get four bids for our audit contract this  
25 year.

1           Finally items 7 and 8, reviewing the legal and  
2 regulatory matters as they impact our financial  
3 statement and reviewing conflict of interest or code of  
4 ethics, we would recommend that we would possibly bring  
5 our general counsel, Tom Hughes, in to give us  
6 information and guidance on those two final items.

7           So in conclusion, if you agree with our  
8 proposed charter and approve Resolution 06-15, I would  
9 then recommend that after our October audit and perhaps  
10 for the November Board meeting, that I would have the  
11 Deloitte auditors accompany me, and they would go over  
12 the scope of the audit, their results, findings and  
13 recommendations, and any other questions that you would  
14 have on their audit. And at the same time, I would  
15 make a presentation such as I did last November going  
16 over the results and comparing them with the prior  
17 year.

18           Any questions?

19           CHAIRPERSON COURSON: Mr. Chairman, do you have  
20 any comments?

21           MR. SHINE: No, Mr. Chairman.

22           CHAIRPERSON COURSON: The purpose here, as we  
23 talked about before, is not to turn three of our fellow  
24 Board members into accountants or financial managers.  
25 It's really oversight. We want to make sure we work in

1 conjunction with the staff and as a Board that has a  
2 fiduciary responsibility work with them, as we work  
3 through the selection of auditors, looking at audit  
4 results, and just as really frankly an assistance and,  
5 if will you, a safety net for the staff as well as  
6 fiduciary responsibility to the Board in reporting back  
7 to us after the audits.

8 So it's really a matter of oversight in the  
9 sense of -- and I think the auditors themselves, at  
10 least my experience is that the auditors themselves  
11 like a person other than the line main staff management  
12 that they can also report to to put forth any issues or  
13 concerns they may have and we'll give them now that  
14 opportunity. They're very comfortable and, in fact,  
15 support having this audit committee as we have created  
16 it.

17 Any questions of Dennis or anyone else?

18 Then a motion would be in order to approve  
19 Resolution 06-15, which is the adoption of the charter  
20 that's attached to it.

21 MS. JACOBS: Move approval.

22 CHAIRPERSON COURSON: All right. Ms. Jacobs  
23 moves approval.

24 Second?

25 MR. PAVAO: Second.

1 CHAIRPERSON COURSON: Mr. Pavao seconds.  
2 Is there any discussion?  
3 Then we'll call the roll, please.  
4 MS. OJIMA: Thank you.  
5 Mr. Pavao.  
6 MR. PAVAO: Yes.  
7 MS. OJIMA: Mr. Carey.  
8 MR. CAREY: Yes.  
9 MS. OJIMA: Ms. Galante.  
10 MS. GALANTE: Yes.  
11 MS. OJIMA: Ms. Jacobs.  
12 MS. JACOBS: Yes.  
13 MS. OJIMA: Mr. Augustine.  
14 MR. AUGUSTINE: Yes.  
15 MS. OJIMA: Mr. Shine.  
16 MR. SHINE: Yes.  
17 MS. OJIMA: Mr. Courson.  
18 CHAIRPERSON COURSON: Yes.  
19 MS. OJIMA: Resolution 06-15 has been approved.  
20 CHAIRPERSON COURSON: Thank you.  
21 MS. PARKER: Jack, did you have something to  
22 add?  
23 MR. SHINE: No. I think the job that the staff  
24 did in drafting this and the comments that were made,  
25 the changes resulted in a good document. I believe

1 that we'll do what we can to fulfill the requirements  
2 set forth in it. And if conditions dictate that  
3 changes or modifications are necessary, then we'll  
4 consider those, deal with them, and bring them back to  
5 you.

6 CHAIRPERSON COURSON: All right. Thank you.

7 Thank you, Dennis.

8 I think at this point let's take about a  
9 ten-minute break. I show it's 10:30, so at 10:40 we'll  
10 come back and complete the agenda.

11 (Recess taken.)

12 --oOo--

13 **Item 6. Discussion, recommendation and possible action**  
14 **relative to the possible creation of CalHFA's**  
15 **Board of Directors' Compensation Committee**

16 CHAIRPERSON COURSON: The --

17 MS. PARKER: Mr. Chairman and Members.

18 Mr. Chairman.

19 CHAIRPERSON COURSON: Yes. As I was about to  
20 say, the next item on our agenda, as you can see, is  
21 talking about compensation. And before Terry gives us  
22 the status where we're at, let me review for everybody.

23 At the last Board meeting we had a very  
24 extensive and I would say robust discussion regarding  
25 compensation and talked about and Terry gave us a

1 status as to where we were in terms of achieving  
2 legislative approval for the Board to determine and set  
3 compensation based upon a methodology to be developed  
4 for staff.

5 And as part of that discussion, I think you'll  
6 recall that there was conversation regarding the  
7 Board's ability and authority, if you would, based on  
8 original statutes to set compensation. And we talked  
9 about some of the historical events that had taken  
10 place that in effect had moved or ceded that authority  
11 over to the DPA. And we asked counsel at that meeting  
12 if he would in fact put together a document for us to  
13 review that had the sort of a chronology, if you would,  
14 of the events and also cite for us language in the  
15 statute so we could have that document to look at it as  
16 a basis of fact and a basis of history to make a  
17 decision on the Board as to how we wanted to proceed.

18 You have that document. It was sent to all the  
19 Board members so you should have that. I would say to  
20 counsel, good job. I thought it was very, very  
21 informative and certainly met the marks that I was  
22 looking for as I tried to get a basis on which to move  
23 forward on any future discussions we had.

24 Since that time, obviously in 60 days in state  
25 government or any government, a lot of things can

1 happen, and so at this point I'd like to call on Terry  
2 to sort of bring us up-to-date, if you would, give us a  
3 status of where we're at, and then we'll circle back  
4 and have a discussion on compensation.

5 MS. PARKER: Thank you, Mr. Chairman.

6 Just before I begin my remarks, if there is any  
7 Board member who does not have a copy of the letter  
8 that I sent out, I have copies available to them.

9 All right. As the chairman noted, we had a  
10 very lively discussion about salaries and the  
11 recruitment and retention issue at our last Board  
12 meeting. I had asked the Board to give me a little bit  
13 of time to continue to do some of the work that we were  
14 doing internally on this issue and -- but also send out  
15 to you, as requested, information on what the history  
16 has been about the Agency and setting salaries.

17 I'm very happy to report to you today that we  
18 have been successful in what we think is a very  
19 important step to dealing with recruitment and  
20 retention issues for the California Housing Finance  
21 Agency going into the future with the introduction of  
22 SB 257. As I mentioned just a few minutes ago, this is  
23 the piece of legislation that originally started as  
24 sponsored legislation by the Schwarzenegger  
25 administration to accompany the housing initiative, the

1 Homeless Initiative Phase II.

2 It includes the language in it required --  
3 recommended by our bond counsel in establishing a  
4 special needs housing category, but is also a vehicle  
5 which has been amended with language, actually based on  
6 the request by Mr. Steinberg of the author of the  
7 legislation, Senator Chesbro, to add this language in  
8 it, which clearly defines that the Board of the  
9 California Housing Finance Agency sets the salaries for  
10 the exempt appointments for the staff of the California  
11 Housing Finance Agency, to clarify that.

12 It has -- the language would dictate a process  
13 whereby the Board would set these salaries based on a  
14 salary survey to be conducted and reviewed by the  
15 Department of Personnel Administration. The  
16 legislation had its first hearing a week ago in the  
17 Assembly Housing Committee. That's where the bill was  
18 currently sitting before it was gutted and amended with  
19 this language on special needs and salaries.

20 It was very successfully heard in that  
21 committee last week due to the very fine staff work of  
22 Di Richardson with the committee consultants and all of  
23 the various advocacy groups. We had great support by  
24 the Western Center on Law and Poverty. The cities  
25 spoke on behalf. The Mental Health Directors

1 Association spoke on behalf. Cooperation for  
2 Supportive Housing spoke on behalf of this legislation.

3 And I must say that the sponsor of the legislation,  
4 Senator Chesbro, is very, very supportive of the  
5 opportunity of carrying this bill and the important  
6 significant work it will accomplish.

7 So we feel at the moment that this is a very  
8 good -- will put the Agency and the Board in a position  
9 of being able to dictate salaries based on what the  
10 market will dictate so that we can get the quality and  
11 caliber of staff that our rating agencies would demand  
12 in order for us to do the complexity of the kinds of  
13 deals that we have done in the past.

14 So I think Tom and I are both here to answer  
15 any questions on the material we have submitted to you.

16 There is a copy of SB 257 at your desks. This is the  
17 bill that we are currently working with. And the  
18 legislature, as you're all aware, has adjourned for  
19 their break. They expect to be coming back in August  
20 around the 7th. It is set for its next committee  
21 hearing, I believe, on the 16th, where it will go to  
22 Assembly Appropriations, then on to the floor, and then  
23 back over to the Senate.

24 So both Tom and I are here to answer any  
25 questions.

1 CHAIRPERSON COURSON: Obviously -- thank you,  
2 Terry.

3 Obviously we've made great progress since our  
4 last meeting 60 days ago. Are there questions of Terry  
5 or Tom?

6 Let me mention, if I may, I think the follow-on  
7 to this is that at the last Board meeting, if you'll  
8 recall, Mr. Morris raised the suggestion that we should  
9 consider having a compensation committee as part of the  
10 Board. And I think at that point, as I recall the  
11 discussion, we talked about that that would be  
12 considered -- something to consider, but we're  
13 obviously not quite sure which direction this  
14 legislation and what a compensation committee may or  
15 may not do, depending on who has the ability or  
16 capability, authority, if you would, to determine  
17 compensation.

18 My suggestion, but I'm certainly looking for  
19 input from the Board, is -- my thought is that as we're  
20 moving forward with this legislation to find ourselves,  
21 to get ourselves ahead of the curve, if you will, if  
22 we're going to be setting compensation for senior  
23 staff, it would be, it seems to me, appropriate to  
24 consider having a compensation committee, some way to  
25 really vet through the methodology which is part of

1 this legislation.

2           There needs to be some basis on doing this,  
3 based on research and study, that we would have to work  
4 through that methodology. There's going to have to be  
5 some requests for proposals, would be my guess, to put  
6 this out to have people determine methodology and then  
7 coming back and actually making some recommendations to  
8 the Board.

9           So based on the sense of the other directors,  
10 it would be my recommendation that we go away from this  
11 meeting and say to staff, and I would name myself if I  
12 may be so bold as to work with them, to put together a  
13 compensation committee draft charter like we did for  
14 the audit committee, sort of outline what their tasks  
15 and their roles would be and have that ready for the  
16 September meeting, and at that meeting -- circulate it  
17 obviously prior to the meeting -- get comments, get  
18 input, and see if we can agree on a role of a  
19 compensation committee and be prepared at that  
20 September meeting to appoint a compensation committee.

21           My thought being that as the legislature winds down,  
22 we are going to know either by our September meeting or  
23 right around that time or shortly thereafter if, in  
24 fact, we have our legislation.

25           If we do, we then need to be prepared to move

1 ahead. It's my understanding the legislation as it's  
2 written will be effective on January 1st, but we have  
3 only a September meeting and a November meeting. So my  
4 thought process is in September, if we can agree upon a  
5 compensation committee charter and appoint a  
6 compensation committee, then the methodology issue and  
7 all that needs to be done and prepared to be brought  
8 back to us at a November meeting. And so I think the  
9 time line calls for us to start that process, but I  
10 certainly am open to any discussions or comments from  
11 the Board.

12 Mr. Carey.

13 MR. CAREY: I'd certainly agree with that. I  
14 think that regardless of what happens with the  
15 legislation, the information and the data and the  
16 process that could be put together would be helpful to  
17 us long term, understanding the disparity between this  
18 Agency and the rest of the nation.

19 I guess my one question is, doesn't the current  
20 statute in essence give the authority of the Board to  
21 set salaries and wasn't that sort of just over --  
22 rejected by personnel? What is it that will make this  
23 bulletproof?

24 MR. HUGHES: Mr. Carey, that's correct. As I  
25 had pointed out in the memo that I wrote to the Board,

1 the Agency has statutes which -- or has a statute which  
2 provides that the Board sets the salaries of employees  
3 of persons other than those paid through the General  
4 Fund, which of course this Agency does not have any  
5 staff paid through the General Fund.

6 That -- that issue went -- when DPA was  
7 created, became an issue that needed to be resolved as  
8 to what the effect of the creation of DPA was. And as  
9 my memo had pointed out, initially the Attorney General  
10 had opined that, in fact, CalHFA did have -- the Board  
11 did have that authority. And the AG later issued a  
12 subsequent opinion that reached the opposite  
13 conclusion.

14 So as a practical matter, the Agency has -- at  
15 least since those days, has not had the practical  
16 ability to exercise that right in light of the  
17 evolution of those opinions.

18 But the interesting part, of course, is that  
19 the Agency was originally founded and envisioned as  
20 along a private corporation model. And the founders of  
21 the Agency actually devoted some thought to attracting  
22 and retraining qualified persons to run the operations.  
23

24 As an aside, the original legislation to create  
25 the Agency was a constitutional amendment and, in fact,

1 had exemption from civil service. That did not survive  
2 the legislative process and ultimately was -- became a  
3 normal statute without a civil service exemption.

4 But the structure of the Agency, again, was  
5 premised along the line that this would operate more  
6 like a private corporation and the Board would have  
7 those kinds of authorities. So I think when the Agency  
8 became, in fact, a state agency, we have since walked  
9 that tightrope between the structure modeled on a  
10 private corporation with a public purpose and a  
11 traditional state agency. And as things have evolved,  
12 we've found ourselves where we are today and needing to  
13 reconcile those differences.

14 CHAIRPERSON COURSON: Ms. Galante.

15 MS. GALANTE: Yes. I actually have a question  
16 and a -- two questions.

17 The first is it sounded to me like you're  
18 satisfied with this legislation the way it's written,  
19 and I don't mean this to be a loaded question, but, you  
20 know, I know in the nonprofit industry the way  
21 compensation for highly paid people is done is a salary  
22 comparison, not only to nonprofits but to the private  
23 sector as well. And if I read this right, and I read  
24 it really quickly, this really sets out a methodology  
25 that compares CalHFA personnel to other housing finance

1 agency personnel. And we all know that California is  
2 the eighth largest economy in the world, and, you know,  
3 comparing salaries to the, you know, directors or  
4 multifamily lending people in Wyoming may not be the  
5 most appropriate. There's a lot of private sector  
6 financial institutions that might be better  
7 comparables.

8 So you know, if this is satisfactory and this  
9 will do it, I'll shut up. But -- and if this is the  
10 best we can do, we think we can do, legislatively, then  
11 so be it. But I just wanted to kind of put that out  
12 there that it seems fairly limited. I mean, it's  
13 better than what we -- at this pass this is better than  
14 what we have today, but I would say it's not yet ideal.

15 CHAIRPERSON COURSON: Can I comment on that  
16 just a minute. A couple of -- Carol, I've looked at  
17 that very carefully too, and I come at it a couple  
18 ways. One, they're talking about determining  
19 compensation in this methodology, and I think as part  
20 perhaps of the consideration of this compensation or  
21 however we decide to move forward is there are  
22 certainly other housing finance agencies that have  
23 certain standards based upon cost of living and  
24 indexes. I mean there's some measurable indices out  
25 there that you could take a Wyoming or a Kentucky and

1 look at California and make some comparisons, and I  
2 don't see being precluded doing that. I think that's  
3 one of the things they're asking.

4 And plus the fact, frankly, "other relevant  
5 labor pools" seems to be a fairly big basket out there  
6 that as a compensation committee and a Board, other  
7 relevant labor pool says to me California is a labor  
8 pool, obviously, of certain positions we're looking at.  
9 So that might take -- when I looked at it, I had the  
10 same question. I looked at it, and I thought about it,  
11 and I said it'd probably has a pretty wide expanse of  
12 flexibility.

13 MS. GALANTE: I didn't see that.

14 CHAIRPERSON COURSON: It's on page 4 of the  
15 handout of the actual bill itself. It's page 4 and  
16 it's --

17 MS. PARKER: It reads: Other state and local  
18 housing -- "A survey shall be conducted looking at  
19 other state and local housing finance agencies that are  
20 most comparable to CalHFA and other relevant labor  
21 pools."

22 Ms. Galante, let me -- I'll try to be tactful  
23 in answering your question. We try to walk a very fine  
24 line. This is actually -- the language is drafted by  
25 the Housing Finance Agency. We tried to be very

1 careful about how we drafted this language in order to,  
2 you know, not create what would be perceived by people  
3 as the Agency trying to be cowboys off the reservation,  
4 you know.

5 This is a very sensitive time, given what's  
6 happened in the last several months with the University  
7 of California. I think people are very concerned about  
8 public entities and salary setting. So we really tried  
9 to be very careful.

10 I would point out to you, actually it's a bit  
11 ironic, but my colleague who runs the Wyoming Housing  
12 Finance Agency's salary is about almost \$30,000 more  
13 than the executive director of the Housing Finance  
14 Agency. So, I'm not sure that that would be such a bad  
15 pool to be in. But certainly if you looked at what  
16 would be comparable housing finance agencies across the  
17 country, the salary differential is substantially  
18 greater.

19 But it's not just for the executive director.  
20 I think the important part is to be looking at the  
21 salaries for comparable positions and that that's why  
22 we're looking at the housing finance agencies. There  
23 are at least a couple of them that have mortgage  
24 insurance that they run, and they have a director of  
25 mortgage insurance, and those salaries would be a

1 significant increase relative to the salary that we  
2 have available to currently retain someone here. I  
3 think it's also fair to say that local government's  
4 housing salaries are substantially greater than ours,  
5 but we would be looking -- it would be a comparable  
6 labor pool.

7 We had some discussions with the Department of  
8 Personnel Administration in trying to draft this  
9 language to see what they would be comfortable with  
10 because the reality is since these positions are  
11 appointed by the Governor, that is a reality and that  
12 is who advises the Governor on salaries. They -- their  
13 one feedback to us was that we should be looking at  
14 what are relevant labor pools, and that being not just  
15 the banking community.

16 So I think what we've tried to do is put  
17 language in here that would be -- you know, we have to  
18 make a case for that, and that's the whole basis of  
19 what would be a reasonable survey for consideration.  
20 But I think that given what I'm aware out there, if we  
21 are successful in using those other entities as  
22 benchmarks, we would at least be able to be competitive  
23 in the marketplace here, as I said, get the kinds of  
24 staff that we feel we need.

25 I did want to also add, Mr. Chairman, to your

1 comments about the establishment of a compensation  
2 commission. One of the things I have been particularly  
3 concerned about, and we've talked about this at the  
4 last couple meetings that we've had, is our most recent  
5 rating by Standard & Poor's and their concern about our  
6 vacancies.

7 As you are all aware, every time we do an OS,  
8 we have to report on what really constitutes the  
9 officers of the Agency. And right now we're having to  
10 report that there are many vacancies for the purposes  
11 of our investors because ultimately they are the people  
12 who -- whose money we are utilizing.

13 So this legislation is something when we go  
14 back and talk to the rating agencies in the next month  
15 or two about our annual review, we want to be able to  
16 tell them about how we are addressing this particular  
17 issue. And I think from the standpoint of going  
18 further and talking to them about the establishment of  
19 a compensation commission, that the Board tends to, you  
20 know, try to take some action when there is the  
21 authority if this bill passes, effective January 1st,  
22 will all go to, I think, relieve them that there is a  
23 plan in place to address that there will be the caliber  
24 of staff necessary to meet the required level of  
25 complexity that the kinds of deals the Housing Finance

1 Agency has done in the past and hopes to continue to do  
2 in the future.

3 CHAIRPERSON COURSON: And timing wise our next  
4 Board meeting to consider that draft will be before the  
5 trip that Bruce and Terry take to meet with the rating  
6 agencies in September, so the timing is good.

7 MS. PARKER: And that's -- these are all the  
8 things that we said were really important about why we  
9 needed to put this in place and motion because it's --  
10 again, at the end of the day, if we lose our rating,  
11 then we're out of business. So that's the importance.

12 We're trying to do all these things at the same time  
13 as well as having staff here to continue to oversee the  
14 portfolio that exists, let alone bringing in new  
15 business.

16 CHAIRPERSON COURSON: Did you have a second  
17 question?

18 MS. GALANTE: I guess the other question was  
19 just does the Board need to do anything affirmatively  
20 with respect to this legislation, or do you need any  
21 additional assistance from us, I guess is the question?

22 MS. PARKER: Well, I'd probably defer that to  
23 Di. We -- I think we want to make all of you aware of  
24 this. We tried to be really good about getting good  
25 support when we had our first hearing. It's going to

1 be over in the Senate side. The bill won't have very  
2 much time to move, so if there's any glitches, you  
3 know, in our path, with the three weeks left in the  
4 session when they come back. So I think we can say in  
5 the next month Di will be -- this is her life --  
6 monitoring that process. And I think I would certainly  
7 be calling upon all of you and any of you if there  
8 is -- if we feel that there is a need to make calls or,  
9 you know, speak to any groups, I will be calling and  
10 asking.

11 Right now I think it is a collective. If you  
12 have a chance in any appropriate setting to say 257,  
13 this is what we're looking at, this is, you know, we  
14 all believe what we need here, need this. I think that  
15 we have good support so far. We are generally  
16 comfortable about it. And we want to make people aware  
17 of it and have them be comfortable that this is not  
18 something that we've done in the cloak of darkness,  
19 that this will be a public process when it's  
20 considered. The Board members were all alerted of this  
21 and know what your responsibilities are, and this won't  
22 be something that will be like what, you know, people  
23 have perceived with University of California.

24 CHAIRPERSON COURSON: Mr. Augustine.

25 MR. AUGUSTINE: I just wanted to add that the

1 administration is supportive of this bill so if -- in  
2 the hopefully unlikely event that there is trouble,  
3 that we're going to be able to marshal our resources  
4 behind the bill as well. So Di and I will work very  
5 closely that way with the folks in the Governor's  
6 Office to ensure passage of the bill.

7 CHAIRPERSON COURSON: Okay. Mr. Carey.

8 MR. CAREY: I wonder if it would be appropriate  
9 to have any sort of basic information about  
10 comparability with other states that would be just  
11 numbers that would be helpful to allow a comparison so  
12 it's clear what we're talking, that we're not just  
13 talking about something we imagine, you know, similar  
14 housing agencies.

15 The other point I would make is that I was sort  
16 of thinking about this, and I'm extremely supportive of  
17 it. I also think it's a -- will be a significant step  
18 in responsibility for this Board and public visibility  
19 for decisions we make. We just need to keep that in  
20 mind.

21 CHAIRPERSON COURSON: I agree with that a  
22 hundred percent. I think that it raises our level of  
23 responsibility, and as, you know, servants serving on  
24 this Board we have a fiduciary responsibility to -- to  
25 the Board, to the Agency itself, to the citizens of

1 California and to the staff, and that's going to be a  
2 balancing act we are going to have to work on. I think  
3 that's why this compensation committee and the process  
4 is so important.

5 I think that it will be -- as several of you  
6 have mentioned, I think that the methodology that we  
7 use needs to be pretty rock solid in terms of using  
8 proper data and analyzing it and making reasonable  
9 conclusions and decisions based upon the data available  
10 to us as opposed to some decisions that get made  
11 through just sort of dead reckoning, and that's  
12 something that this Board really cannot be allowed to  
13 do. So I think we do take that responsibly. And  
14 that's why we need to get started. This is not  
15 something you do over a 60-day period. We now have a  
16 six-month window to really move that process forward,  
17 and I'm suggesting that we start on it in terms of  
18 getting this charter and getting moving.

19 MS. PARKER: Mr. Carey, we do -- and I'll bring  
20 back -- either send it to the Board or bring back to at  
21 our next meeting, we've done some work really to supply  
22 the data, not just, you know, speak to inequities, but  
23 really to document, which one looks at the ten most  
24 populated states' housing finance agency and what those  
25 salaries are and also to try to demonstrate the

1 uniqueness of housing finance agencies within  
2 individual states.

3 So for example, we did some comparisons of what  
4 the -- a couple of -- like the director of the  
5 Department of Motor Vehicles, the director of the  
6 Department of Social Services and the Housing Finance  
7 Agency salaries are within states so there was a -- you  
8 know, an acknowledgement in most states of it being a  
9 different entity. So I have that.

10 I also have some information about doing some  
11 comparisons of the -- what our assets are relative to  
12 other housing finance agencies and their compensation  
13 salaries. So I can give that to you, send that to you.  
14 And I think it's a pretty quick picture of what the  
15 situation is.

16 And you know, you can just -- if that's the top  
17 salary, you can just recognize going down what that  
18 feeds into the organization for the general counsel,  
19 the director of multifamily there and their other key  
20 positions. So I, you know -- we've done that to try to  
21 document this all along so the standpoint everybody can  
22 be, feel comfortable that this is based on  
23 documentation, justification and merit.

24 CHAIRPERSON COURSON: Other questions or  
25 comments? If there's no objection, then I -- we will

1 move forward and take -- I'll the responsibility of  
2 working with staff, and we will put together a draft of  
3 a compensation committee. Again, we can feed off of  
4 other similar groups to ours that have it, as we did  
5 with our audit committee, and bring that back in  
6 September for consideration by the Board and be  
7 prepared to appoint a compensation committee at that  
8 time so that we can then move to the next step and  
9 start with the data and the methodology. Okay. We  
10 will accomplish that by September.

11 MS. PARKER: Thank you, Mr. Chairman. Again, I  
12 would just want to reiterate on behalf of the staff our  
13 appreciation for your strong support on this issue.  
14 Thank you.

15 MR. HUGHES: Thank you.

16 --o0o--

17 **Item 7. Update on Bay Area Housing Plan**

18 CHAIRPERSON COURSON: Okay. The next item on  
19 our agenda is, as we have is our custom, to let Kathy  
20 and Edwin give us an update on the Bay Area Housing  
21 Plan. Never short of facts, figures and data in front  
22 of you, you have several pieces of information. I'll  
23 let them describe what we have.

24 MR. GIPSON: Good morning. I'll let Kathy go  
25 through the details of exactly what we have, but in

1 general those are some of the write-ups that have gone  
2 before senior staff as we accept each collateral piece,  
3 and the top piece of the paper is a running list of  
4 what's going on at the current moment. And we've been  
5 keeping quite a few people very busy with this,  
6 numerous staff. Kathy can testify as to how busy,  
7 particularly Liz Hogan as well, who helps us keep track  
8 of a lot of these items as well and has put that  
9 package together for you today.

10 As some of the homes start to be purchased, we  
11 are now identifying some of the new trends, and we are  
12 watching the cost numbers for which we will once again  
13 report back on that as well. But we are seeing some of  
14 the firm numbers. Costs are coming in. All the costs  
15 with all the reserves and everything else are coming in  
16 around \$200,000, a slight difference than what the  
17 developer projected, but we have all these reserve  
18 numbers in there as well, so just a little difference  
19 in how the accounting is coming forth. The purchase of  
20 the homes is a little bit more expensive, but the rehab  
21 is probably the kicker on top of that to get these  
22 homes into the shape that we have.

23 I will let Kathy go through the detail of where  
24 we are at this point and what's happened since our last  
25 meeting.

1 MS. WEREMIUK: Good morning.

2 Over the last two months, we've been busy. One  
3 of the things we've done is finish up the facilities  
4 close, which is the overall package of commitments on  
5 the property, the most important of which was the  
6 creation of the three limited liability corporations by  
7 the nonprofits who are going to be eventually our  
8 borrowers. Those have been created. They have  
9 assumed -- the new limited liability corporations have  
10 assumed all of the responsibilities of the nonprofits.

11  
12 We've also started the process -- Hallmark has  
13 started the process of acquiring homes. And you'll see  
14 in front of you there will be three complete write-ups.  
15 The Board has approved approximately -- or the senior  
16 staff has approximately 5,500,000 in loans for 1527 and  
17 1529 Eden, which is in San Jose, 1320 Baywood, which is  
18 in San Jose, and 227 Prague, which is in San Mateo. To  
19 date two of those loans have been funded by the Bank of  
20 America. And the properties have been purchased, and  
21 the third will be purchased, I believe, next week,  
22 Tuesday.

23 The developer has -- in those, in the packages  
24 that you have along with a narrative, there is a budget  
25 from the master developer, which is approved by Bank of

1 America and we accept -- in our process, we accept  
2 their numbers. We don't reunderwrite the budget as  
3 Bank of America approves it. And then there's also a  
4 conditional approval, which is a review by staff of all  
5 of the due diligence listing the conditions under  
6 which -- or which have to be met at the stabilization  
7 for the Agency to agree to purchase the loan at the  
8 loan amount.

9 Behind the papers that you see, we have gotten  
10 what is really our security, which is a lease that's  
11 been executed by the master developer and a service  
12 provider and acknowledged by the three regional center  
13 directors, an estoppel from the regional center  
14 directors which agree to pay the monthly lease rate,  
15 which includes our debt service on each of those loans  
16 as well as management, taxes, insurance and reserve  
17 costs. And we also get an estoppel from the nonprofit  
18 LLC agreeing that they will become the ultimate owner  
19 of the loan at conversion or the transfer of the --  
20 purchase of the loan by the Agency from the syndicate  
21 Bank of America is administering.

22 The -- you will also see as you look down the  
23 list from properties 3 to properties 8, property  
24 Jasmine -- a property for Jasmine, Northlake, and three  
25 Vasonas. Those are properties that have been -- that

1 are under contract with Hallmark. All of the due  
2 diligence on those has been done. The appraisals are  
3 in. We have pretty firm numbers. They're not  
4 completely firm. We're actually -- I think the firm  
5 packages on that, the numbers will be firmed up once we  
6 get new interest rate projections from Merrill Lynch,  
7 who is our broker who is handling some of the bond  
8 sales.

9           And what we're currently seeing, the first  
10 three I thought were especially good because one of  
11 them is a duplex, one of them is a medical model, and  
12 one of them is a behavioral model. And they're  
13 somewhat fitting the projections that we thought. The  
14 medical model is the most expensive. It has the most  
15 extensive rehab. The duplex is more expensive to  
16 purchase because it has two income properties in it.  
17 And then the behavioral model, which will not have a  
18 staff housing nor special medical infrastructure, is  
19 the least expensive of the three.

20           During the next month, we anticipate the next  
21 five properties will be purchased. And then in August,  
22 I'm showing only two but there -- we anticipate -- two  
23 are currently in escrow. We anticipate another three  
24 will be. And also the four properties in Cupertino,  
25 which were previously developed will come -- will also

1       come into the pool.

2               By the end of August, we think that the  
3       Agency's commitment will be somewhere around 33 to 34  
4       million dollars and that with the 10-percent additional  
5       coverage that Bank of America requires, we will have  
6       about 35 million commitments outstanding and 18  
7       properties under control. With that, we anticipate  
8       coming back to you in September for an additional  
9       commitment to allow Hallmark Community Services to  
10       continue purchasing properties.

11               We also anticipate over the next couple -- over  
12       the next two months that the process of actual -- of  
13       them actually filling out the construction -- doing the  
14       construction drawings, hiring architects and firming up  
15       the construction process will happen and that there  
16       will be a procedure in place for that.

17               Fine Line Construction Company is the  
18       construction company chosen by Hallmark, and they've  
19       done the initial takes, and they'll be doing -- be  
20       working with the architects and doing some destructive  
21       testing, now that the properties have been purchased,  
22       to firm up the construction estimates. The Agency will  
23       have a role in that because we've got conditions  
24       requiring that. We'll have to remove those conditions  
25       for the bank before the bank starts construction.

1            Financing, our finance department currently is  
2            anticipating bond sales. We were anticipating  
3            completion in about the end -- and what you will see is  
4            the colored charts are the developer's charts in terms  
5            of when they think construction will be complete.  
6            They're not completely updated, so they may -- the time  
7            line may go out a little bit past the November time  
8            line that they're showing us on this, but we think that  
9            we'll be at stabilization December, January and in bond  
10           sales February, March and beginning to take down  
11           properties at that time.

12           In terms of trends, Ed has mentioned them.  
13           Purchase prices and acquisition prices are higher.  
14           Costs are still firm in the market. There are still in  
15           some instances multiple bidders. It's not as hot a  
16           market as it was a few months ago, but costs for good  
17           properties are not going -- they're not going down.  
18           There is more junk on the market that's -- that's  
19           there, that isn't selling and -- or not selling as  
20           quickly as it used to. But we didn't see a decrease in  
21           prices, nor did we really see sellers being willing to  
22           extend their escrow periods beyond 30 days. Generally  
23           that's the norm.

24           We have seen higher interest rates, and the  
25           Bank of America syndicate rate is a variable rate.

1 That's pushed up some of the costs. On the interest  
2 carry on these, it's pushed up some of the costs on our  
3 reserve numbers. But probably more importantly, the  
4 rehab numbers are running a little bit higher, and I  
5 think that's because construction costs have gone up.  
6 And the estimators have begun to get their arms around  
7 the repairs that the regional centers are interested in  
8 in terms of disability repairs. Most of those require  
9 moving walls and changing the footprints of the  
10 buildings in some ways, and that just is expensive.

11 So what we've seen to date is, the loan to  
12 values on these properties, not considering reserves,  
13 are in the low 200-percent loan to value, I think as  
14 Mr. Shine predicted. With our reserves, they go down  
15 to about 175 percent of value. Again, our principle  
16 security on this is not the real estate, but is the  
17 lease payments and the obligations of the State under  
18 various acts of the Legislature and also legal cases to  
19 provide support for these residents.

20 What we anticipate right now, beginning to look  
21 at the first numbers, is that the initial commitment  
22 that the Board has given of 120 million will probably  
23 not cover the entire Bay Area Housing Plan. It may be  
24 in the -- as I'm looking at it, I think it could be in  
25 the range of 130 to 140 million. And that with the

1 additional coverage, Bank of America would like to see  
2 from us our commitment may need to be upwards of 155  
3 million.

4 As we put these numbers together over the last  
5 few days, Ed and I began to -- we sent them to the  
6 regional center directors and DDS to begin a dialogue  
7 with them about this. To date they have been  
8 supportive of cost increases and have been signing all  
9 the estoppels for the higher lease rates.

10 CHAIRPERSON COURSON: Correct me if I'm wrong,  
11 at the time we approved the project in total, the  
12 concept of the project, what were the LTVs? Were they  
13 135 percent?

14 MR. GIPSON: About 138.

15 MS. WEREMIUK: They were at 135 on the four  
16 Cupertino properties which were purchased a few years  
17 ago. On the later projections, they were higher. And  
18 I haven't run the numbers against them. One of my  
19 colleagues is here from Bank of America who thought  
20 with reserves they were about 200 percent.

21 CHAIRPERSON COURSON: I guess -- I guess where  
22 I'm coming from is we talked about some -- it seems as  
23 though the conversation is there have been some  
24 increase in cost, and I would suggest if we've gone  
25 from 130-percent LTV to 174, there's not just some

1 increase in cost, there's something fairly dramatic  
2 going on here. And I got the impression when you were  
3 talking about it, just, well, there's some increase.  
4 It seems like there's a fairly substantial increase,  
5 and my concern is what we're facing down the road.

6 MR. GIPSON: I think a lot of it is the early  
7 numbers were estimates based off the Cupertino -- the  
8 four Cupertino properties. And since then we've seen  
9 increases in every single line item there is. You pick  
10 one, it had an increase. And the real estate prices  
11 did not provide any comfort. The rehab work that  
12 everybody wanted was more expensive than first  
13 projected. And the items that really needed to be done  
14 to the house, there are just more items being done  
15 inside the homes as well.

16 So when you -- if you look back to the early  
17 days, you're right, there is a dramatic increase. When  
18 you look in more detail exactly what those issues are,  
19 they not necessarily falling out of line with the  
20 reality of the market. But without a doubt, they are  
21 higher than the original numbers.

22 And because of that, just as Kathy just  
23 mentioned, we're talking back to the regional centers  
24 and DDS. This is -- this is what they wanted. They're  
25 the ones who are signing off on these lease payments

1 and ultimately, you know, particularly the regional  
2 centers guaranteeing this debt. So either they're  
3 prepared to do all the homes they're going to do or  
4 perhaps they may change the number they're going to do,  
5 but at this point we're looking at saying we're going  
6 to go higher based off these first ones we have through  
7 the pipe, so let's have this conversation right now.

8 CHAIRPERSON COURSON: And I guess the  
9 follow-up, as we've always talked about, there is some  
10 comfort for us in terms of the annual appropriation of  
11 funds. Are we talking, now that this appropriation as  
12 the Legislature considers it, needs to also be  
13 increased to reflect these additional lease payments?

14 MR. GIPSON: No, not really.

15 MS. WEREMIUK: Not really. Some of the  
16 additional lease payments, 50 percent of that will be  
17 picked up through the State's Medicaid waiver and be  
18 reimbursed to DDS by the federal government.

19 In terms of the lease payments running somewhat  
20 higher, 50 percent of it would be additional  
21 legislative appropriations. The numbers -- and I  
22 didn't rerun that for this meeting, but the savings to  
23 the State will still be considerable from the cost of  
24 maintaining residents in the Agnew Center by  
25 approximately 50-percent reduction that the State is

1 going to see, even though there will be an uptake in  
2 the lease amounts. So when the project is completed,  
3 the State will see savings in the appropriations, but  
4 their savings won't be as large as were originally  
5 anticipated.

6 MS. PARKER: Mr. Chairman, let me just add this  
7 from the standpoint of how the process works for that  
8 budget item. The budget item for the Department of  
9 Developmental Services, as I mentioned in the past, is  
10 an entitlement. The Department does an estimate of  
11 what they expect the costs to be for all the categories  
12 of services for someone who is in -- covered by that  
13 program, is a regional center client. That  
14 information, that it was submitted originally with the  
15 budget, was probably updated by the Department again in  
16 May. Then when the budget is resubmitted for the  
17 Department in the January -- in January of '00 -- '07,  
18 the current year will be updated again based on the  
19 most current information.

20 So the Department of Developmental Services  
21 will be tracking and building into their estimates what  
22 these reimbursement rates will be to be covered. So  
23 there is, you know, at least twice a year, an  
24 opportunity for the Department to continue the update  
25 and reflective of what the actual costs of these -- of

1 this particular type of residential placements will be.  
2 And again, this is the basis of why the Agency,  
3 CalHFA, has felt and the partnerships with  
4 Developmental Services, that these costs could be built  
5 in and recognized as they occur.

6 CHAIRPERSON COURSON: Mr. Shine.

7 MR. SHINE: This may be naive, but when we're  
8 building onto the rents the additional costs we need to  
9 cover these overruns, is there any amortization built  
10 into that? Does this loan, including everything, get  
11 paid off at some time or is it --

12 MS. WEREMIUK: We have a very short  
13 amortization period. We have a 15-year amortization on  
14 the loan so there will be a point in the loan where it  
15 will go down to a hundred percent of value and then  
16 below a hundred percent of value. Our original  
17 estimate was about five years. I think it's going to  
18 be somewhere in-between five and ten at this point to  
19 come back down to a hundred percent of value. But it's  
20 a short amortization when you take out the loans.

21 MR. SHINE: Maybe I misspoke. When I say  
22 amortization, to me it means when a loan is amortized  
23 at the end of the day, it's got a zero balance.

24 MR. GIPSON: Yes.

25 MR. SHINE: Now, are you saying that in 15

1 years the entire indebtedness per house would be paid  
2 off based upon the cash flow that we're committed to  
3 get from --

4 MS. WEREMIUK: That is correct.

5 MR. GIPSON: Yes. Yes.

6 CHAIRPERSON COURSON: Other questions of Edwin  
7 or Kathy? Comments?

8 Well, we will look forward to September and an  
9 additional report. We do appreciate -- and I think  
10 it's important for the Board and we said that we --  
11 it's obviously a very big undertaking, a very big  
12 commitment by the California Housing Finance Agency,  
13 and that's why I think as we have these Board meetings  
14 these updates are informative and necessary so we make  
15 sure that we're informed as to where we're moving with  
16 this project.

17 MS. WEREMIUK: Thank you.

18 MS. PARKER: Mr. Chairman, I always wanted to  
19 point out too that our partners from Bank of America  
20 are in the audience today. They also include the head  
21 of their housing group from New York, so I did want to  
22 point out that Bank of America continues to be as on  
23 top of this as we are in partnership on complexity. So  
24 we -- you know, we will continue. We think these --  
25 some of the monthly updates for you are very important,

1 given the complexity of these deals, and we'll be  
2 continuing to provide this information at every one of  
3 our meetings as we continue to, you know, learn new  
4 things about the process ourselves.

5 Certainly doing this project has been the basis  
6 for looking at the homelessness initiative and making  
7 sure that the Agency at least has the wherewithal,  
8 statutorily, to take on the complexity of these kinds  
9 of deals.

10 CHAIRPERSON COURSON: Thank you. Thank you.

11 --oOo--

12  
13 **Item 8. Reports**

14 CHAIRPERSON COURSON: The next item on our  
15 agenda, I'm going to ask Bruce Gilbertson. You have  
16 some financing reports at your place and ask Bruce to  
17 give us a report on financing activity of the Agency.

18 MR. GILBERTSON: Good morning, Mr. Chairman,  
19 Members of the Board. I have three financing reports  
20 that I'll review with you briefly this morning. Two of  
21 them are recent bond issuance activity, and the third  
22 one is the update on a variable rate bonds and interest  
23 rate swap portfolio.

24 In April we sold \$180 million of housing  
25 program bonds that were issued on May 2nd, and as you

1 can see, in June we sold about \$77 million of  
2 multifamily bonds that were issued on June 15th. The  
3 housing program bonds were issued as tax exempt and  
4 federally taxable bonds in two series designated as the  
5 2006 Series A and the 2006 Series B. This is the  
6 second issuance of bonds under the housing program  
7 bonds indenture. This indenture is backed by the  
8 Agency's general obligation and allows financing of  
9 loans that are not easily financed under our mainstream  
10 single-family and multifamily indentures.

11 The 2006 Series A bonds were issued to finance  
12 down payment assistance loans. Approximately \$47  
13 million of bond proceeds were used to purchase CHAP and  
14 HiCAP loans that had accumulated in our warehouse  
15 facility over the past 18 months.

16 The 2006 Series B bonds are federally taxable  
17 and are issued to purchase \$11 million of down payment  
18 assistance loans that were otherwise not eligible for  
19 tax-exempt financing and to purchase \$50 million of  
20 loans -- these were multifamily loans -- from the  
21 Agency's housing assistance trust and our revolving  
22 credit facility. Securitizing these loans has created  
23 a liquidity in the housing assistance trust for other  
24 programmatic activities while lowering our borrowing  
25 costs.

1 given the complexity of these deals, and we'll be  
2 continuing to provide this information at every one of  
3 our meetings as we continue to, you know, learn new  
4 things about the process ourselves.

5 Certainly doing this project has been the basis  
6 for looking at the homelessness initiative and making  
7 sure that the Agency at least has the wherewithal,  
8 statutorily, to take on the complexity of these kinds  
9 of deals.

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12

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23 rate swap portfolio.

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25 program bonds that were issued on May 2nd, and as you

1 can see, in June we sold about \$77 million of  
2 multifamily bonds that were issued on June 15th. The  
3 housing program bonds were issued as tax exempt and  
4 federally taxable bonds in two series designated as the  
5 2006 Series A and the 2006 Series B. This is the  
6 second issuance of bonds under the housing program  
7 bonds indenture. This indenture is backed by the  
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12 down payment assistance loans. Approximately \$47  
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19 tax-exempt financing and to purchase \$50 million of  
20 loans -- these were multifamily loans -- from the  
21 Agency's housing assistance trust and our revolving  
22 credit facility. Securitizing these loans has created  
23 a liquidity in the housing assistance trust for other  
24 programmatic activities while lowering our borrowing  
25 costs.

1           And secondly, the multifamily bonds were issued  
2 as tax-exempt bonds as a single series to provide  
3 financing for eight multifamily projects previously  
4 approved by this Board. All of the bonds were issued  
5 as variable rate demand obligations backed by the  
6 standby bond purchase agreement with DEPFA Bank. We  
7 negotiated three interest rate swap agreements with  
8 Merrill Lynch in the aggregate total of \$22 million.  
9 The notional amount of the swaps represents the total  
10 amount of the permanent loans for these eight  
11 financings. Consistent with our strategy for previous  
12 multifamily transactions, amounts related to bridge  
13 loans and construction loans were not swapped due to  
14 the short-term duration of those loans.

15           Moving on to the variable debt report and  
16 interest rate swap report, as of June 15th, 2006, the  
17 Agency's total bond indebtedness was \$7.4 billion. 6.7  
18 billion or 90 percent of all outstanding bonds are  
19 variable interest rate bonds. 1.2 billion of the  
20 variable rate bonds were tied directly to variable rate  
21 assets. And 4.8 billion of variable rate bonds were  
22 hedged with fixed payer interest rate swaps. Nearly 95  
23 percent of the remaining 714 million that is shown on  
24 the slide is not swapped or tied directly to variable  
25 rate assets. Other variable rate bonds are hedged with

1 other assets on the balance sheet. So, if you will, we  
2 have a balance sheet hedge for the \$714 million.

3 Just a quick side note, we have a lot of  
4 variable rate debt in our portfolio. You'll be  
5 interested in knowing that we have a pending bond  
6 transaction scheduled to close in July in which we will  
7 issue \$240 million of bonds under the home mortgage  
8 revenue bond indenture for our homeownership program.  
9 Half of all of the bonds issued in that financing, or  
10 \$120 million, will be issued as fixed rate bonds.  
11 These bonds were successfully priced the last week in  
12 June, and it will represent the first time in well over  
13 six years that we have had such a significant block of  
14 fixed rate bonds issued as a part of our financing  
15 programs.

16 This slide shows the amount of variable rate  
17 bonds we have issued by type and bond indenture.  
18 Nearly 60 percent of all variable rate bonds have been  
19 issued as variable rate demand obligations. VRDOs, as  
20 we call them, continue to be our primary choice of  
21 variable rate instruments because with VRDOs, we  
22 achieve the lowest, all in bond cost, and currently  
23 there continues to be ample supply liquidity in the  
24 marketplace in the form of these standby bond purchase  
25 agreements. These agreements protect the Agency in the

1 event bondholders exercise their rights to put bonds  
2 back to our remarketing agents, and the bonds cannot be  
3 remarketed.

4 This slide illustrates the tax status of the  
5 underlying bonds being hedged with our \$4.8 billion of  
6 interest rate swaps. Currently interest rate swaps  
7 hedging taxable floating rate bonds represent less than  
8 19 percent of initial outstanding. One year ago  
9 taxable swaps represented almost 24 percent of swapped  
10 initial outstanding. The decline illustrates the  
11 reduction of taxable bond issuance over the last year  
12 or two for the Agency.

13 With that, I'd open it up and be pleased to  
14 respond to any questions.

15 CHAIRPERSON COURSON: Any questions from anyone  
16 on the Board? You can ask them at your own peril.

17 Bruce, we do appreciate it. Thank you.

18 --oOo--

19  
20 **Item 9. Discussion of other Board matters**

21 CHAIRPERSON COURSON: The next item is just  
22 discussion of other Board matters. Are there any other  
23 matters that the directors choose to bring before the  
24 Board?

25 --oOo--

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**Item 10. Public testimony.**

CHAIRPERSON COURSON: Seeing none, the next is to see if there is any public testimony from anyone who is present?

And seeing none, I will remind the Board that the next meeting is September 7th in Burbank.

And do we have parking credits today?

MS. OJIMA: No.

CHAIRPERSON COURSON: The Chair will note the one time he parks in the facility where he can get a credit, he once again must at his great personal expense pay for his own parking.

And with that note, we -- I'm sorry, Ms. Parker.

MS. PARKER: I --

CHAIRPERSON COURSON: -- is going to pay for my parking.

MS. PARKER: I can't even comment on that.

But I did want to give the Board a preview of coming attractions, something that you can think of and look forward to at future board meetings. I'm not necessarily going to promise it at the next one, but what I want to be bringing forward to you, I think it

1 will be good information and just a promise that we're  
2 going to have our Director of Asset Management,  
3 Margaret Alvarez, do a presentation for us on the  
4 status of our REO sales. We have been very successful  
5 on that, and we'll actually have accomplished and  
6 completed one of the sales, and so I want to bring that  
7 back to the Board and give them the status on where we  
8 are on that.

9 The other thing is, given that we have our new  
10 Director of Mortgage Insurance, I'm going to be asking  
11 Chuck to give a status report of the Mortgage Insurance  
12 Fund portfolio to the Board. I think that will be good  
13 information for the Board to get Chuck's perspective,  
14 certainly given his background and experience, when he  
15 has a chance to go through our portfolio from a risk  
16 standpoint and give you the benefit of his perspective  
17 on it.

18 So with that, those are the -- some of the  
19 coming attractions. And obviously we'll be keeping you  
20 updated on where we are on the status of our  
21 legislation and with the implementation of the  
22 Governor's Homelessness Phase II and the process that  
23 we're going to be seeing, and implementing that  
24 initiative.

25 Thank you, Mr. Chairman.

1 CHAIRPERSON COURSON: And if there's no other  
2 additional comments, we will stand adjourned. Thank  
3 you.

4 (The meeting concluded at 11:37 a.m.)

5 --o0o--



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State of California

# MEMORANDUM

**To:** CalHFA Board of Directors

**Date:** September 7, 2006

**From:** Charles K. McManus, Acting Director of Mortgage Insurance  
CALIFORNIA HOUSING FINANCE AGENCY

**Subject:** CALIFORNIA HOUSING LOAN INSURANCE FUND PRESENTATION

Attached are the supporting exhibits for the presentation regarding the California Housing Loan Insurance Fund.

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**California Housing Loan Insurance Fund**

**Presentation to the CalHFA Board of Directors**

**Charles K. McManus  
Acting Director of Mortgage Insurance**

**September 7, 2006**

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**California Housing Loan Insurance Fund**

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- C. Condo Share of Policies Written
- D. FICO Segmentation – 1988 through 2006
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- F. Frequency of Foreclosure by FICO and LTV
- G. Loss Rate by LTV and Condo/Non-Condo
- H. Percentage of Cumulative Losses Paid by Year
- I. Projected Claims Payments by Year
- J. Actual and Projected Loan Payoffs (Terminations)
- K. FICO Segmentation – 1988 through 2006
- L. Loans with Total Debt Ratio over 55.0% by Book Year
- M. Quality Control Plan

**EXHIBIT A**  
**California Housing Loan Insurance Fund**

Expected Loss Rate - LTV and Condo Property Type<sup>1</sup>

Data as of June 2006

LTV	Premium Rate	Coverage	Expected Loss Rate		Expected Loss Ratio <sup>2</sup>	
			No Condo	Condo @ 50%	No Condo	Condo @ 50%
85%	0.40%	35.0%	2.7%	3.2%	47.3%	56.3%
90%	0.55%	35.0%	3.6%	4.3%	46.2%	55.6%
95%	0.75%	35.0%	4.9%	5.9%	46.7%	56.7%
97%	0.85%	35.0%	5.7%	6.8%	48.3%	58.1%
100%	0.85%	35.0%	6.8%	8.2%	58.1%	71.0%

<sup>1</sup> Fixed Rate, 700 FICO, Owner Occupied, Single Family, Full Documentation Mortgage Insurance Policy

<sup>2</sup> Assumes 325% PSA

**EXHIBIT B**  
**California Housing Loan Insurance Fund**

Expected Frequency of Foreclosure by Other Risk Segments

Expected Claim Rate  
Data as of June 2006

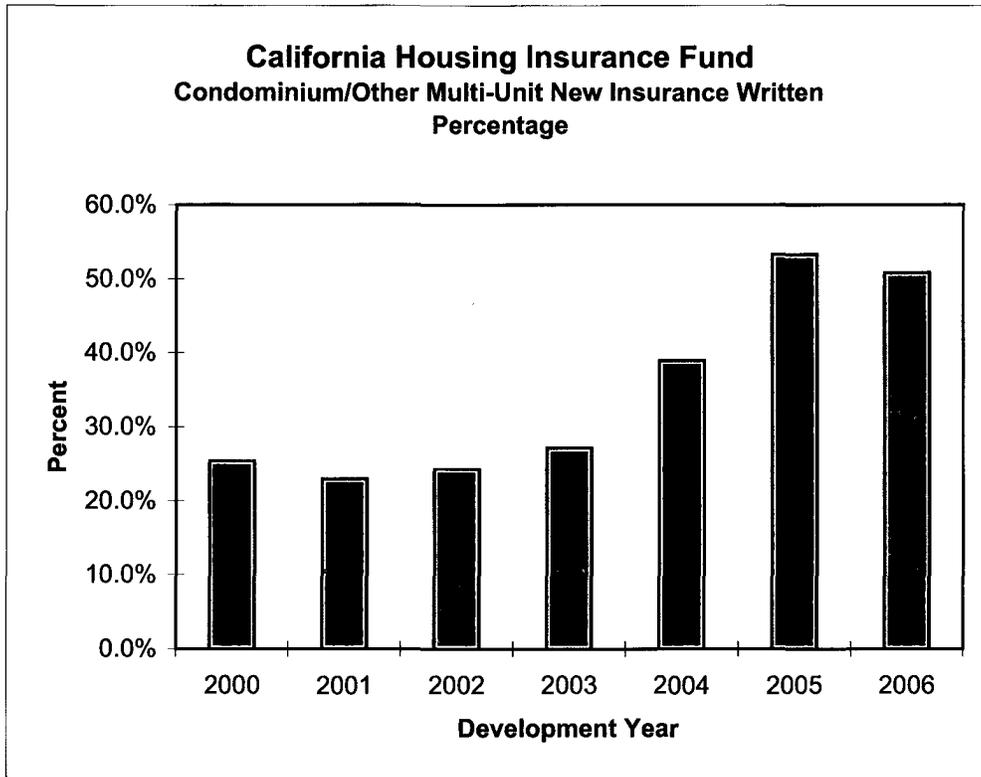
<b>Amortization</b>	Factor	Mix
30 Year Fixed	1.00	100.0%
Fixed < 30	0.90	0.0%
Fixed > 30	1.10	0.0%
ARM 5/1 or longer	1.10	0.0%
ARM 5/1 (<5 yr lock)	1.20	0.0%
<b>Total/Average</b>	<b>1.00</b>	<b>100.0%</b>
<b>Interest Only</b>		
Non-I/O or Option Pay	1.00	50.0%
I/O or Option Pay	1.15	50.0%
<b>Total/Average</b>	<b>1.08</b>	<b>100.0%</b>
<b>Loan Purpose</b>		
Purchase	1.00	100.0%
Rate/Term Refinance	0.95	0.0%
C/O Refinance	1.25	0.0%
<b>Total/Average</b>	<b>1.00</b>	<b>100.0%</b>
<b>Property Type</b>		
Single Family	1.00	50.0%
2-4 Family	1.20	0.0%
Condo	1.40	50.0%
<b>Total/Average</b>	<b>1.20</b>	<b>100.0%</b>
<b>Occupancy</b>		
Owner Occupied	1.00	100.0%
Second Home	1.25	0.0%
Investor	1.50	0.0%
<b>Total/Average</b>	<b>1.00</b>	<b>100.0%</b>
<b>Documentation</b>		
Full	1.00	100.0%
Alternative (incl. BS)	1.10	0.0%
SIVA	1.25	0.0%
SISA	1.50	0.0%
NINA No Ratio	2.00	0.0%
<b>Total/Average</b>	<b>1.00</b>	<b>100.0%</b>
<b>Loan Size</b>		
Conforming	1.00	100.0%
Jumbo	1.50	0.0%
<b>Total/Average</b>	<b>1.00</b>	<b>100.0%</b>

**EXHIBIT C  
California Housing Loan Insurance Fund**

Condo Percentage (Number of loans)

Data as of June 2006

	Total Number of Policies	Number of Condo/Other	Percent of Condo/Other
2000	2,020	513	25.4%
2001	3,361	772	23.0%
2002	3,095	753	24.3%
2003	1,575	428	27.2%
2004	1,469	572	38.9%
2005	2,378	1,268	53.3%
2006	1,365	694	50.8%

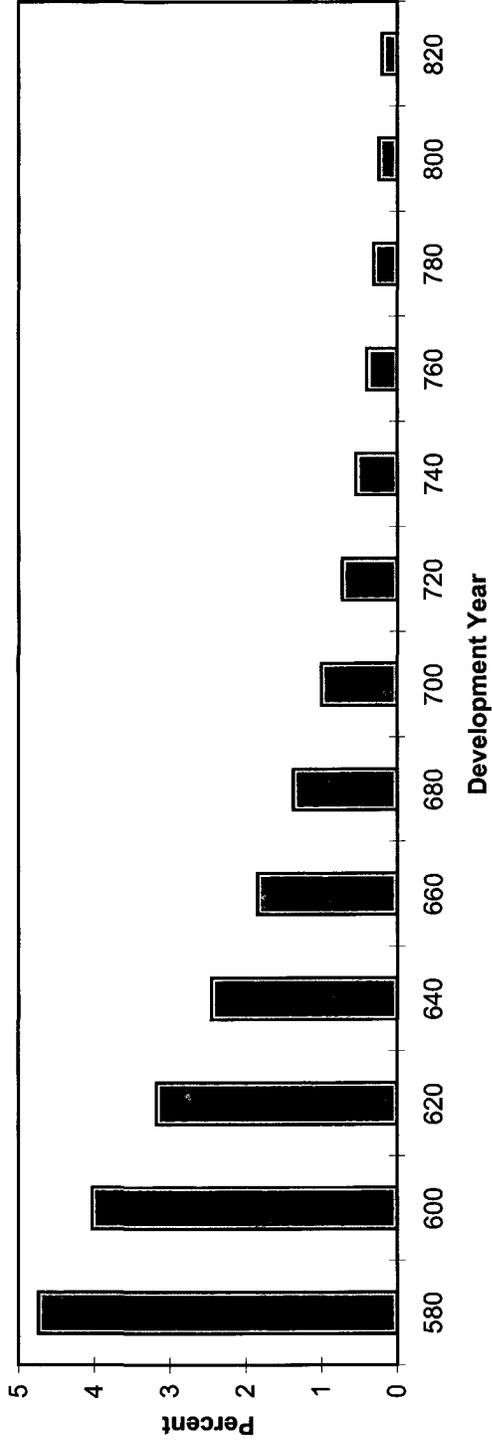


**EXHIBIT D**  
**California Housing Loan Insurance Fund**

FICO Segmentation First Mortgages - Percent New Insurance Written Dollars

Book Year	FICO Segmentation First Mortgages - Percent New Insurance Written Dollars										Lease		Total
	<580	580 to 619	620 to 659	660 to 679	680 to 735	>735	No FICO	Purchase					
1988	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1989	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1990	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1991	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1992	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1993	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1994	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1995	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1996	- %	- %	- %	- %	- %	- %	- %	100.0 %	- %	- %	100.0 %		
1997	3.5 %	4.3 %	7.4 %	5.2 %	27.3 %	29.4 %	22.9 %	- %	- %	- %	100.0 %		
1998	1.2 %	3.5 %	12.3 %	9.7 %	30.7 %	26.0 %	16.6 %	- %	- %	- %	100.0 %		
1999	1.5 %	2.7 %	16.2 %	13.6 %	37.7 %	25.1 %	3.2 %	- %	- %	- %	100.0 %		
2000	1.0 %	5.4 %	20.6 %	13.0 %	34.7 %	22.6 %	2.7 %	- %	- %	- %	100.0 %		
2001	0.8 %	2.5 %	14.9 %	9.7 %	32.3 %	26.5 %	12.7 %	0.6 %	0.6 %	0.6 %	100.0 %		
2002	0.5 %	2.7 %	18.2 %	10.7 %	35.4 %	27.3 %	1.7 %	3.5 %	3.5 %	3.5 %	100.0 %		
2003	0.3 %	2.9 %	17.8 %	12.6 %	32.4 %	26.2 %	0.1 %	7.7 %	7.7 %	7.7 %	100.0 %		
2004	0.6 %	4.4 %	20.4 %	12.8 %	29.3 %	27.9 %	1.2 %	3.3 %	3.3 %	3.3 %	100.0 %		
2005	0.2 %	4.6 %	21.5 %	11.5 %	31.0 %	30.0 %	1.0 %	0.2 %	0.2 %	0.2 %	100.0 %		
2006	0.1 %	2.6 %	20.8 %	11.8 %	31.9 %	31.6 %	1.2 %	- %	- %	- %	100.0 %		

**EXHIBIT E**  
**California Housing Loan Insurance Fund**  
**FICO Score Loss Rate Differential compared to Base 700 FICO Mortgage**  
**(100% LTV)**



**EXHIBIT F**  
**California Housing Loan Insurance Fund**

Expected Frequency of Foreclosure by FICO & LTV

	<b>FICO 580</b>	<b>600</b>	<b>620</b>	<b>640</b>	<b>660</b>	<b>680</b>	<b>700</b>	<b>720</b>	<b>740</b>	<b>760</b>	<b>780</b>	<b>800</b>	<b>820</b>
<b>LTV</b>													
<b>60%</b>	3.3%	2.5%	1.9%	1.6%	1.2%	1.0%	0.9%	0.8%	0.8%	0.7%	0.6%	0.6%	0.6%
<b>65%</b>	4.4%	3.3%	2.5%	2.0%	1.6%	1.2%	1.0%	0.9%	0.8%	0.8%	0.7%	0.6%	0.6%
<b>70%</b>	6.1%	4.5%	3.4%	2.5%	2.0%	1.6%	1.2%	1.0%	1.0%	0.8%	0.8%	0.7%	0.6%
<b>75%</b>	8.5%	6.3%	4.6%	3.4%	2.6%	2.0%	1.6%	1.3%	1.1%	1.0%	0.8%	0.8%	0.7%
<b>80%</b>	11.8%	8.7%	6.3%	4.6%	3.4%	2.6%	2.0%	1.6%	1.3%	1.1%	1.0%	0.8%	0.8%
<b>85%</b>	16.0%	12.0%	8.8%	6.5%	4.8%	3.6%	2.7%	2.0%	1.6%	1.4%	1.1%	1.0%	0.8%
<b>90%</b>	21.0%	16.2%	12.2%	9.0%	6.6%	4.8%	3.6%	2.7%	2.1%	1.6%	1.4%	1.2%	1.0%
<b>95%</b>	27.0%	21.3%	16.4%	12.4%	9.2%	6.7%	4.9%	3.6%	2.7%	2.1%	1.6%	1.4%	1.2%
<b>97%</b>	29.1%	23.7%	18.5%	14.1%	10.5%	7.8%	5.7%	4.2%	3.1%	2.4%	1.8%	1.5%	1.2%
<b>100%</b>	32.2%	27.3%	21.6%	16.7%	12.5%	9.3%	6.8%	5.0%	3.7%	2.7%	2.1%	1.6%	1.4%

**EXHIBIT G**  
**California Housing Loan Insurance Fund**

Expected Loss Rate - LTV and Condo Property Type<sup>1</sup>

Data as of June 2006

LTV	Premium Rate	Coverage	Expected Loss Rate		Expected Loss Ratio <sup>2</sup>	
			No Condo	Condo @ 50%	No Condo	Condo @ 50%
85%	0.40%	35.0%	2.7%	3.2%	47.3%	56.3%
90%	0.55%	35.0%	3.6%	4.3%	46.2%	55.6%
95%	0.75%	35.0%	4.9%	5.9%	46.7%	56.7%
97%	0.85%	35.0%	5.7%	6.8%	48.3%	58.1%
100%	0.85%	35.0%	6.8%	8.2%	58.1%	71.0%

<sup>1</sup> Fixed Rate, 700 FICO, Owner Occupied, Single Family, Full Documentation Mortgage Insurance Policy

<sup>2</sup> Assumes 325% PSA



**EXHIBIT I**  
**California Housing Loan Insurance Fund**

Projected Claims Payment Pattern

Year	Incremental Payment Pattern	Cumulative Payment Pattern
1	0.00%	0.00%
2	0.68%	0.68%
3	9.02%	9.70%
4	14.09%	23.79%
5	18.36%	42.15%
6	16.43%	58.58%
7	15.10%	73.68%
8	13.38%	87.06%
9	5.47%	92.52%
10	2.62%	95.15%
11	1.99%	97.14%
12	0.90%	98.05%
13	0.65%	98.69%
14	0.44%	99.13%
15	0.42%	99.55%
16	0.29%	99.84%
17	0.16%	100.00%



**EXHIBIT K**  
**California Housing Loan Insurance Fund**

FICO Segmentation First Mortgages - Percent New Insurance Written Dollars

Book Year	FICO Segmentation First Mortgages - Percent New Insurance Written Dollars										Lease	
	<580	580 to 619	620 to 659	660 to 679	680 to 735	>735	No FICO	Purchase	Total			
1988	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1989	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1990	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1991	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1992	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1993	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1994	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1995	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1996	- %	- %	- %	- %	- %	- %	100.0 %	- %	100.0 %	- %	100.0 %	
1997	3.5 %	4.3 %	7.4 %	5.2 %	27.3 %	29.4 %	22.9 %	- %	100.0 %	- %	100.0 %	
1998	1.2 %	3.5 %	12.3 %	9.7 %	30.7 %	26.0 %	16.6 %	- %	100.0 %	- %	100.0 %	
1999	1.5 %	2.7 %	16.2 %	13.6 %	37.7 %	25.1 %	3.2 %	- %	100.0 %	- %	100.0 %	
2000	1.0 %	5.4 %	20.6 %	13.0 %	34.7 %	22.6 %	2.7 %	- %	100.0 %	- %	100.0 %	
2001	0.8 %	2.5 %	14.9 %	9.7 %	32.3 %	26.5 %	12.7 %	0.6 %	100.0 %	0.6 %	100.0 %	
2002	0.5 %	2.7 %	18.2 %	10.7 %	35.4 %	27.3 %	1.7 %	3.5 %	100.0 %	3.5 %	100.0 %	
2003	0.3 %	2.9 %	17.8 %	12.6 %	32.4 %	26.2 %	0.1 %	7.7 %	100.0 %	7.7 %	100.0 %	
2004	0.6 %	4.4 %	20.4 %	12.8 %	29.3 %	27.9 %	1.2 %	3.3 %	100.0 %	3.3 %	100.0 %	
2005	0.2 %	4.6 %	21.5 %	11.5 %	31.0 %	30.0 %	1.0 %	0.2 %	100.0 %	0.2 %	100.0 %	
2006	0.1 %	2.6 %	20.8 %	11.8 %	31.9 %	31.6 %	1.2 %	- %	100.0 %	- %	100.0 %	

**EXHIBIT L**  
**California Housing Loan Insurance Fund**

Total Debt Ratio Greater Than 55.0% by Book Year

<u>Book Year</u>	<u>Total Number of Loans</u>	<u>Number of Loans &gt; 55%</u>	<u>Percentage of Total</u>
2004	964	5	0.52%
2005	2285	176	7.70%
2006	2116	230	10.87%

**EXHIBIT M**  
**QUALITY CONTROL PLAN**  
**CALHFA MORTGAGE INSURANCE SERVICES**  
**(Effective June 2006)**

**GOALS AND OBJECTIVES**

- Verify compliance with CalHFA underwriting requirements.
- Identify underwriting trends that create increased risk of future defaults and losses and convey findings to management for corrective action.
- Evaluate the quality of loans submitted for mortgage insurance coverage.
- Verify the accuracy and veracity of documentation submitted.
- Identify those areas, concentrations, lenders and agents who contribute to losses, fraud or unacceptable levels of risk.
- Make recommendations for changes in underwriting procedures and guidelines.

**STRATEGIES**

To accomplish the above objectives, the following strategies will be employed:

- Conduct random audits of 10% of monthly production
  - Loans are selected for audit from a list of Mortgage Insurance Services underwriter approved loans for each calendar month, including loans from delegated underwriters.
  - Loans are selected for audit no later than three months after underwriter approval.
  - Based on current production levels of approximately 300 loans per month, a minimum of 10% will be audited.
  - Audits are expected to be completed within 15 working days of receipt of the underwriting files from Archives. The files are to be ordered from Archives on the Monday of the first week of the calendar month and are expected to be available for auditing within three working days.
  - Audits resulting in findings of suspected fraud or misrepresentation are to be referred to the Director of Mortgage Insurance upon discovery and referred to Genworth for further investigation, if necessary.
- Conduct an analysis of delegated and automated underwriting exceptions
  - Identify those loans where the FICO score and/or Total Debt Ratio fall outside underwriting guidelines through query of the Mortgage Insurance Application System.
  - Conduct separate analyses of loans subjected to automated underwriting and those subjected to manual underwriting for comparison.
  - Analyze loans originated by lenders with delegated underwriting authority to identify possible sources of exceptions.
  - The analysis will be conducted the first week of April, July, October and January for loans approved by underwriting during the previous three months.

- Periodically perform an analysis of the current portfolio beginning with condominium loans in areas of high concentration
  - Through database queries, show the dispersion of the condominium portfolio across county, city, ZIP code and project.
  - Conduct an analysis the second week of April, July, October and January for loans approved by underwriting during the previous three months.
  - Produce a quarterly analysis showing concentration by property type, city and county will to be completed by the second week of April, July, October and January for the previous three months' production.
  
- Perform random audits of < 80% LTV Agency loans
  - Randomly select 10% of < 80% LTV conventional loans purchased by the Agency from an automatically generated list of purchased loans from the LAS database.
  - Select loans for audit no later than three months after purchase by the Agency.
  - Audit a minimum of 10% of < 80% LTV loans.
  - Complete audits within 15 working days of receipt of the underwriting files from Archives. The files are to be ordered from Archives on the Monday of the third week of the calendar month and are expected to be available for auditing within three working days.
  - Refer audits resulting in findings of suspected fraud or misrepresentation to the Director of Mortgage Insurance upon discovery for discussion and further action as is deemed appropriate.
  
- Maintain and upgrade the quality control database and the corresponding operating manual for the database
  - Utilize Microsoft Access for the storage and retrieval of Quality Control audit findings.
  - Upgrade error codes and risk severity ratings to better track and identify trends and issues that may contribute to losses.
  
- Create and generate standardized monthly and quarterly reports to monitor portfolio performance
  - Generate a monthly Quality Control summary report within 2 working days of completion of random monthly audits on both Mortgage Insurance Services production and < 80% LTV production
  - Generate loan level Quality Control finding reports on those loans where an audit reveals suspected fraud, misrepresentation or inappropriate or high risk immediately after the conclusion of the loan audit and submit them to the Director of Mortgage Insurance.
  - Generate quarterly condominium portfolio dispersion reports as described above.
  - Generate quarterly portfolio concentration report by property type (e.g. Single Family detached, condominium, condominium conversion, PUD) .
  - Create any other reports deemed necessary by the Director of Mortgage Insurance or Mortgage Insurance Risk Management Committee.

- Contract for resources such as appraisal reviews, credit repositories, person and asset searches and verification of property sales and transfers
  - The Agency currently contracts with Accurint for person and asset searches whenever owner occupancy is suspect.
  - Experian is utilized on a monthly basis for review credit reports and a report is ordered for each file audited.
  - DataQuick is used on each audit to verify all appraisal sales comparables
  - The Agency presently contracts with CoreLogic to obtain review appraisal data used on an 'as needed' basis whenever an appraised value is suspect.

State of California

**MEMORANDUM****To:** CalHFA Board of Directors**Date:** August 24, 2006

*Theresa A. Parker*  
**From:** Theresa A. Parker, Executive Director  
CALIFORNIA HOUSING FINANCE AGENCY

**Subject:** Approving CalHFA 's Board of Directors Compensation Committee – Resolution 06-16

At the July Board of Directors meeting, Board members expressed the desire to establish a committee of the Board that would study the competitiveness of salaries and other compensation offered to CalHFA employees. The Board also expressed an interest consider alternatives to CalHFA's current compensation plan that would bring the Agency into line with the compensation of relevant labor pools.

Presented for your consideration is Resolution 06-16 which establishes a three member Compensation Committee and which will operate in an advisory role. In addition, staff has prepared for your consideration a Compensation Committee Charter (see attached) which outlines the mission, membership, governance and duties of the committee.

Your approval of Resolution 06-16, establishing the committee, and the Compensation Committee Charter is requested.

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**CALIFORNIA HOUSING FINANCE AGENCY  
COMPENSATION COMMITTEE CHARTER  
AUGUST, 2006**

**MISSION**

The Compensation Committee (the "Committee") is a committee of, and reports to, the Board of Directors of the California Housing Finance Agency (the "Board"). Through this Charter, the Board delegates certain responsibilities to assist the Board in fulfilling its oversight responsibilities in the compensation of key exempt management with the Agency. In performing its duties, the Committee will recommend to the Board compensation policies and procedures designed to attract and retain the best personnel to allow the Agency to achieve its goals and remain competitive in the marketplace

**MEMBERSHIP**

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

**AUTHORITY**

The Committee is established by Board Resolution 06-16 and will act in an advisory capacity to the Board. Staff of the Agency will serve as a resource to Committee. In consultation with the Board Chairman and the Agency Executive Director, the Committee may direct the Agency to engage consultants and advisors to assist the Committee in the execution of its duties. The Committee has the authority to conduct any review appropriate to fulfilling its responsibilities. All employees of the Agency are directed to cooperate as requested by members of the Committee and the Committee will have complete access to Agency records and data.

**MEETINGS**

The Committee will meet as often as its members determine is necessary, but not less frequently than twice each calendar year. The committee will report its proceedings and recommendations to the full Board, at the first regular meeting of the Board following a Committee meeting. 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.

**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 the Committee will be presented to the Committee for review and approval at the next meeting of the Committee. Minutes of Committee meetings are public records unless exempted under the California Public Records Act or other applicable law.

**DUTIES**

The Committee will conduct the following activities:

1. Make recommendations to the full Board to enable the Board to carry out its duties and functions under Health and Safety Code section 50909;
2. Periodically cause to be conducted salary surveys that will form the basis of the design of a compensation plan that will attract and retain senior executive personnel qualified to lead the Agency in its mission and maintain its competitive posture in the marketplace. Such surveys will be conducted by independent outside advisors based on a comparison of compensation plans and compensation levels of other state and local housing finance agencies, other comparable agencies of the State of California, non-profit housing agencies, for-profit institutions and other relevant labor pools;
3. Periodically review and evaluate, with the assistance of Agency management, staff and outside advisors, the structure and level of Agency compensation of those senior executives whose salaries are established by the Board pursuant to section 50909;
4. Annually review the performance of the Executive Director;
5. Based on the annual review of the Executive Director's performance and the results of the salary surveys conducted by independent outside advisors, make a recommendation to the Board for the compensation level of the Executive Director;
6. Annually review that portion of the Agency's budget containing the compensation of key exempt management and recommend to the Board approval or amendments to those compensation levels. The Committee's recommendation will be based on a review of performance evaluations completed by the Executive Director and the results of the salary surveys conducted by outside advisors;
7. Review and discuss management succession at least annually;
8. Review legal and regulatory matters that may have a material impact on the Agency's compensation philosophy, structure and plans.

**OTHER COMMITTEE DUTIES**

In addition to the duties outlined above, the Committee annually will also:

1. Conduct a review of its performance, including a review of its compliance with this Charter;
2. Review and assess the adequacy of this Charter taking into account all legislative, regulatory and contractual requirements applicable as well as any best practices, and, if appropriate, will recommend Charter amendments to the Board.

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## RESOLUTION 06-16

## RESOLUTION APPROVING COMPENSATION COMMITTEE CHARTER

WHEREAS, the Board of Directors of the California Housing Finance Agency (the "Agency") desires to establish a Compensation Committee to advise the Board on matters related to the compensation of Agency employees, and

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

WHEREAS, the Board of Directors directs that any actions of the Board of Directors to set such compensation, as may be authorized by current or future law, should be taken by the full Board sitting in open, public setting,

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

1. The attached "Compensation Committee Charter-August 2006" is hereby adopted by the Board.

I hereby certify that this is a true and correct copy of Resolution 06-16 adopted at a duly constituted meeting of the Board of Directors of the Agency held on September 7, 2006, at Burbank, California.

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

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