



BOARD OF DIRECTORS

(AMENDED)

Thursday, March 8, 2007

Hyatt Regency Sacramento
1209 L Street
Sacramento, California
(916) 443-1234

10:00 a.m.

1. Roll Call.
2. Approval of the minutes of the January 18, 2007 Board of Directors meeting.
3. Chairman/Executive Director comments.
4. Discussion, recommendation and possible action relative to final loan commitment for the following project: (Laura Whittall-Scherfee)

<u>NUMBER</u>	<u>DEVELOPMENT</u>	<u>LOCALITY</u>	<u>UNITS</u>
07-004-N	Eureka Family Housing	Eureka/ Humboldt	50
Resolution 07-07			173

5. Update on Bay Area Housing Plan Financing: (Kathy Weremiuk/Edwin Gipson)
6. Discussion, recommendation and possible action regarding an augmentation of the 2006-2007 Operating Budget. (Jackie Riley)
Resolution 07-08.....195
7. Report of the Compensation Committee Chairman regarding the meeting of CalHFA's Compensation Committee. (John Courson)
8. Possible discussion and action by Board relating to the Compensation Committee's review and recommendations, if any, regarding (i) development of compensation policies and procedures; (ii) possible CalPERS contributions by the Agency in connection with exempt salaries; (iii) exempt salary ranges previously adopted by the Board; and (iv) the salary of the Executive Director previously adopted by the Board. (John Courson)

9. Progress report on development of CalHFA Five Year (2007-08 to 2011-12) Business Plan (Powerpoint presentations).
10. Reports 197
11. Discussion of other Board matters.
12. Public testimony: Discussion only of other matters to be brought to the Board's attention.

NOTES:

HOTEL PARKING: Parking is available as follows: (1) overnight self-parking for hotel guests is \$18.00 per night; valet parking is \$24.00.

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be May 10, 2007, at the Burbank Airport Marriott Hotel & Convention Center, Burbank, California.



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STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

☪

BOARD OF DIRECTORS
PUBLIC MEETING

☪

ORIGINAL

The Westin San Francisco Airport
1 Old Bayshore Highway
Millbrae, California

Thursday, January 18, 2007
9:34 a.m. to 1:06 p.m.

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

☪

03/08/2007

Attest: _____

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
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Telephone 916.682.9482 Fax 916.688.0723
FeldhausDepo@aol.com

ORIGINAL

1953
1954

**STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY**



**BOARD OF DIRECTORS
PUBLIC MEETING**



**The Westin San Francisco Airport
1 Old Bayshore Highway
Millbrae, California**

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9:34 a.m. to 1:06 p.m.**



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A P P E A R A N C E SBoard of Directors Present

JOHN A. COURSON
(CalHFA Board Chair)
President/CEO
Central Pacific Mortgage

PETER N. CAREY
President/CEO
Self-Help Enterprises

EDWARD M. CZUKER
President
E.M.C. Financial Corporation

JEFF DAVI
for Barry R. Sedlik, Acting Secretary
Business, Transportation and Housing Agency
State of California

CAROL GALANTE
President
BRIDGE Housing Corporation

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

JOHN G. MORRIS
President
John Morris, Inc.

THERESA A. PARKER
Executive Director
California Housing Finance Agency
State of California

WILLIAM J. PAVAO
for State Treasurer Bill Lockyer
State of California

A P P E A R A N C E SBoard of Directors Present*Continued*

TERRY ROBERTS
for Cynthia Bryant, Director
Office of Planning and Research
State of California

JACK SHINE
(CalHFA Board Vice Chair)
Chairman
American Beauty Development Co.

--oOo--

Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

SANDY CASEY-HEROLD
Deputy General Counsel

BRUCE D. GILBERTSON
Director of Financing

EDWIN C. GIPSON II
Housing Finance Chief - Culver City
Multifamily Programs

THOMAS C. HUGHES
General Counsel

ROGER KOLLIAS
Housing Finance Officer
Multifamily Program

CHARLES K. McMANUS
Acting Director
Mortgage Insurance Services

A P P E A R A N C E SParticipating CalHFA Staff:*Continued*

JOJO OJIMA
Office of the General Counsel

JACKLYNNE RILEY
Director of Administration

KATHY WEREMIUK
Housing Finance Officer
Multifamily Programs

LAURA WHITTALL-SCHERFEE
Housing Finance Chief - Sacramento
Multifamily Programs

--o0o--

OTHER SPEAKERS

KENNETH A. BJURSTROM
Financial Consultant
Milliman
Re Item 12, Mortgage Insurance

JOHN DUNLAP
Owner, Boles Creek Apartments
Re Item 16, Public Testimony

PERLA ESTON
Inclusive Homes, Inc.
Re Item 4, Diamond Aisle Apartments

JOHANNA GULLICK
Jamboree Housing Corporation
Re Item 4, Diamond Aisle Apartments

TINA ILVONEN
Consultant
Re Item 5, Coyote Run Apartments Phase II

A P P E A R A N C E SOTHER SPEAKERS*Continued*

PAT MEEHAN

Consultant

Re Item 7, Compensation Committee Report

MICHAEL OCLARAY

Watson Wyatt

Re: Item 7, Compensation Committee Report

BRENT OWEN

Owner, Boles Creek Apartments

Re Item 16, Public Testimony

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CalHFA Board of Directors Meeting - January 18, 2007

1 BE IT REMEMBERED that on Thursday, January 18,
2 2007, commencing at the hour of 9:34 a.m., at the Westin
3 San Francisco Airport, 1 Old Bayshore Highway, Millbrae,
4 California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR
5 and CRR, the following proceedings were held:

6 --oOo--

7 **Item 1: Roll Call**

8 CHAIR COURSON: Good morning everyone.

9 I will call the meeting to order, and ask
10 that JoJo call the roll.

11 MS. OJIMA: Thank you.

12 Mr. Pavao for Mr. Lockyer?

13 MR. PAVAO: Here.

14 MS. OJIMA: Mr. Carey?

15 MR. CAREY: Here.

16 MS. OJIMA: Mr. Czucker?

17 MR. CZUKER: Here.

18 MS. OJIMA: Ms. Galante?

19 MS. GALANTE: Here.

20 MS. OJIMA: Ms. Jacobs?

21 MS. JACOBS: Here.

22 MS. OJIMA: Mr. Morris?

23 MR. MORRIS: Here.

24 MS. OJIMA: Mr. Davi for Mr. Sedlik?

25 MR. DAVI: Here.

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1 MS. OJIMA: Mr. Shine?

2 MR. SHINE: Here.

3 MS. OJIMA: Ms. Roberts for Ms. Bryant?

4 MS. ROBERTS: Here.

5 MS. OJIMA: Mr. Genest?

6 *(No audible response)*

7 MS. OJIMA: Ms. Parker?

8 MS. PARKER: Here.

9 MS. OJIMA: Mr. Courson?

10 CHAIR COURSON: Here.

11 MS. OJIMA: We have a quorum.

12 CHAIR COURSON: Thank you.

13 --o0o--

14 **Item 2. Approval of the Minutes of the November 9,**
15 **2006, Board of Directors Meeting**

16 CHAIR COURSON: And the first order of business
17 is as set forth in your Board book, the approval of the
18 minutes from our meeting of November 9th in Burbank.

19 Is there a motion to approve the minutes?

20 MR. CZUKER: So moved.

21 CHAIR COURSON: Is there a second?

22 MR. DAVI: Second.

23 CHAIR COURSON: Any discussion, changes?

24 *(No audible response)*

25 CHAIR COURSON: Please call the roll.

CalHFA Board of Directors Meeting - January 18, 2007

1 MS. OJIMA: Mr. Pavao?
2 MR. PAVAO: Yes.
3 MS. OJIMA: Mr. Carey?
4 MR. CAREY: Yes.
5 MS. OJIMA: Mr. Czucker?
6 MR. CZUKER: Yes.
7 MS. OJIMA: Ms. Galante?
8 MS. GALANTE: Yes.
9 MS. OJIMA: Ms. Jacobs?
10 MS. JACOBS: Yes.
11 MS. OJIMA: Mr. Moore?
12 MR. MOORE: Yes.
13 MS. OJIMA: Mr. Davi?
14 MR. DAVI: Yes.
15 MS. OJIMA: Mr. Shine?
16 MR. SHINE: Yes.
17 MS. OJIMA: Mr. Courson?
18 CHAIR COURSON: Yes.
19 MS. OJIMA: The minutes have been approved.
20 CHAIR COURSON: Thank you.
21 --o0o--
22 **Item 3. Chairman/Executive Director Comments**
23 CHAIR COURSON: I have just a couple of brief
24 comments and then another comment I want to make.
25 First of all, I will announce that being a full

1 service to our Board members, we have the communal
2 Kleenex box up here on the front desk for those who are
3 carrying around the Northern California cold.

4 And secondly, we do have a long meeting today.
5 I know all of you who have been forewarned that we have a
6 number of very important items on our agenda today.
7 We're going to move through them in proper form. We're
8 not going to rush, we're going to take our time, and have
9 full and complete discussion because these are very
10 important items we're going to be looking at through the
11 day.

12 As in some past meetings, I know we've had an
13 agenda where we could move through fairly expeditiously.
14 I suspect this is one that will not be that way. So
15 we'll move through the morning and when we get to an
16 appropriate time, we'll probably take a short break and
17 then come back and continue our work.

18 The other comment I would like to make is I, as
19 a Board member, and I trust other Board members are in
20 receipt of an anonymous memorandum that was sent a couple
21 of weeks ago. If you do not have one, we do have copies
22 with us; but I assume everybody on the Board has one. If
23 you don't, we have them; and we'd be happy to supply
24 those to you.

25 JoJo, I think you have them, if somebody

1 doesn't.

2 Let me make some remarks regarding that.

3 I became aware of that a week ago last Friday,
4 upon a call from CalHFA and from Terri. And shortly after
5 that, I got on the phone with Terri and counsel,
6 Mr. Hughes, and we discussed the memorandum I had
7 received. I had received a copy of it via fax. I
8 actually got a mail copy, I believe, Monday of the
9 following week. And I made the decision, after
10 discussion, that based on the information that was in the
11 memorandum, that it would be appropriate as Board chair
12 for me to undertake a process to do a review of some of
13 the items that were included in that memorandum.

14 So I have, on behalf of the Board, in working
15 with counsel, with Sandy Casey-Herold, because our
16 general counsel, Mr. Hughes, has recused himself from
17 this particular item of our work because of his name
18 being mentioned in the memorandum; and working with
19 Sandy, we have retained the law firm of Seyfarth Shaw out
20 of their office in Sacramento, a gentleman by the name of
21 Mr. Mark Van Brussel, to do a review of certain of the
22 items that are in that memorandum.

23 Mr. Van Brussel is known to me for the last
24 15, 16 years; has done, to my knowledge, I'm specifically
25 aware of very, very similar type of work where there are

1 management, employee-employer, inter-employee types of
2 conflicts and allegations, both known and on an anonymous
3 basis, and done an excellent job in the work that I've
4 seen him do, and in doing these reviews, digging through
5 the information, and issuing a report upon which in that
6 case the management or a board can make a decision if any
7 further action is necessary.

8 So he is undertaking that task. I believe that
9 the engagement letter was received back yesterday from
10 his firm, and he now today is starting on that review.

11 In going through the memorandum with
12 Mr. Van Brussel and our counsel and myself, there is a
13 lot of -- obviously, several pages long, a lot of
14 information in there. And I think we concluded that there
15 are what I would call three for-cause allegations in
16 there. They rise in my mind to very specific allegations
17 that were set forth in the memorandum.

18 One had to do with the way the legislation
19 setting the -- giving the Board authority to review
20 personnel and set salaries; one having to do with
21 reappointment of the executive director; and the third
22 having to do with the mortgage insurance fraud law
23 litigation that we all know about.

24 So I think we picked those three out as being
25 the primary issues that were very specific allegations.

1 And I think Mr. Van Brussel is going to be starting his
2 review by zeroing in on those. If it does lead to other
3 items, obviously he will look at that.

4 The plan is for him to continue that task. He
5 will issue a written report to me as Board chair and to
6 the Board, which obviously will immediately be
7 distributed to the Board. And then, as a Board, based
8 on what is in that report and in his findings of the
9 review, we can make a decision whether, in fact, any
10 additional action by the Board is necessary or
11 appropriate.

12 I'd be happy to answer any questions. I really
13 think it's a pretty full and complete briefing, unless
14 counsel has anything to add to it.

15 *(No audible response)*

16 CHAIR COURSON: Okay, that concludes my remarks.
17 Ms. Parker?

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

19 I have three items of news to share with you.

20 The first one is to report back to the Board.
21 At the last meeting we were visited by Mr. John Dunlap,
22 who is the part owner of Boles Creek in Northern
23 California. And if you recall, he essentially asked the
24 Board to consider his request to the Agency for the
25 ability to prepay the remaining seven years on his loan,

1 or to have the Agency decrease the interest rate for the
2 remaining term.

3 I have left at your desks a copy of the memo
4 that I intend to send him, for your information. And
5 basically, what it speaks to is it reaffirms that the
6 Agency for past loans subject to what was in their
7 contract, has a no prepayment penalty. Our contracts do
8 allow us to consider refinancing with a quid pro quo for
9 additional affordability, either in additional units
10 and/or length of term.

11 Mr. Dunlap was not interested in the options
12 that we have given him and other similarly situated
13 owners of properties. And so we have essentially told
14 in this letter that -- we have offered him another
15 alternative, which is to reduce his reserve replacement
16 funds that would allow him to have some success with
17 increasing cash flows. I don't think that's, again,
18 something that he is interested in; but this letter does
19 reaffirm that offer.

20 This is consistent with the many letters that
21 Margaret gets from our over 600 property owners who would
22 like to have consideration for different interest rates
23 and/or the ability to prepay. And as we have been
24 reminded many, many times, we need to make sure that we
25 keep all of our sponsors and owners similarly situated.

1 And this particular one, it has not only the
2 Agency's policies involved in it, but also HUD's
3 approval. Because if there were a reduction in the
4 interest rate, it would have to be passed on to the
5 tenants, in that it reduced affordability. So there
6 would be no net gain to the property owner.

7 So I wanted to bring you back where we are on
8 this. This is what we have concluded. It is consistent
9 with how we have similarly treated all of our borrowers.
10 But I will tell you that there continues to be interest
11 on many of our borrowers, to see if it would be willing
12 to look into other kinds of options. Primarily, many of
13 these people who have had these properties for a long
14 period of time would like to take some of the profit
15 out of them. And we want to try to see whether or not
16 our goal is to try to again maintain affordability for
17 tenants as long as possible, and also to look at this
18 relative to the various federal tax laws that we have to
19 operate.

20 As you're aware in the business plan that we're
21 currently involved in, we did make some changes to our
22 Multifamily Program, on a going-forward basis where we're
23 allowing 15-year prepay on a 30-year fixed-rate mortgage.
24 But anything on our prior portfolio continues to be an
25 exercise of continual research and dedication on our

1 part.

2 So unless there are any questions from members,
3 that is the memo that I'm planning on sending out.

4 Two other items. I want to report to the Board
5 that we had alerted you to work we were doing with
6 Fannie Mae. The major initiative was to implement on a
7 going-forward basis the resolution that you passed at our
8 last meeting for us to look at implementing an MBS
9 program. But as part of that, we had discussions with
10 Fannie Mae, their interest in buying some second loans
11 that we had, down payment assistance loans that we had, a
12 portfolio of over 6,000 loans. That transaction was
13 completed in December of last year. It was an extremely
14 difficult but very, very successful endeavor. And the
15 Agency was able to sell loans and increase our liquidity
16 bottom line by almost \$60 million.

17 The exciting thing about that is that we will be
18 able to use those funds to revolve for down-payment
19 assistance without having to go to other HAT funds, which
20 will allow us more flexibility when we do our business
21 plan next year.

22 So that is two of the three.

23 The third item is to report to the Board the
24 continual work that I and my staff are doing with the
25 counties, our sister state agency, the Department of

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1 Mental Health, and other housing agencies to implement
2 the Governor's Homeless Phase II Initiative. I'm very
3 pleased to announce that our most recent discussions with
4 counties have proved to be so positive, that the counties
5 are not only going to commit \$75 million for construction
6 of housing for the homeless, but to commit another
7 \$40 million of their own Prop. 63 dollars for operating
8 subsidies, so the Agency will be operating for at
9 least -- or running for at least the next five years,
10 a program of \$115 million for this housing.

11 That concludes my report, Mr. Chairman.

12 CHAIR COURSON: Okay, thank you.

13 Any questions of the executive director?

14 *(No audible response)*

15 CHAIR COURSON: Okay, seeing none, then let's
16 move then to our item -- agenda Item Number 4, which
17 is a presentation on the Diamond Aisle Apartments.

18 Incidentally, I have to say congratulations to
19 the new dad.

20 MR. GIPSON: Thank you.

21 FEMALE VOICE: Twins.

22 MR. GIPSON: Thanks.

23 --o0o--

24 //

25 //

1 **Item 4. Resolution 07-01, Diamond Aisle Apartments**

2 MR. GIPSON: For Diamond Aisle, you guys do have
3 in front of you some replacement pages. The major change
4 is that we've eliminated the bridge loan that was in the
5 financing package.

6 Diamond Aisle is a 25-unit project in the City
7 of Anaheim. It is a special-needs project, which falls
8 under the Governor's Homelessness Initiative Phase I,
9 and as such, has those funds in it as well.

10 The owner will be Diamond Aisle L.P., a
11 California limited partnership, and the managing general
12 partner will be Jamboree Housing Corporation, a 501(c)(3).

13
14 They are requesting a \$5.4 million construction
15 loan for 24 months, and a permanent mortgage of 770,000
16 for 1 percent, which falls in line with the Agency's
17 reduced interest rate for 100 percent special-needs
18 projects.

19 Other entities going into the project are
20 Anaheim, who is providing a ground lease for the project
21 for 65 years; and it will be on residual receipts. It's
22 valued at about \$2.2 million. The Governor's Homelessness
23 Initiative Phase I funds with MHP and the Department of
24 Housing and Community Development of
25 \$3.1 million. They have AHP financing, and they also have

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1 a capitalized grant for operating of 180,000 from the
2 Governor's Homelessness Initiative as well.

3 Roger Kollias is the project officer, and he will
4 take us through the project.

5 MR. KOLLIAS: In attendance today, representing
6 Diamond Aisle Apartments, is Johanna Gullick of Jamboree
7 Housing Corporation, Helen Cameron of HOMES -- HOMES
8 stands for Helping Our Mentally Ill Experience Success --
9 and Perla Eston, the project consultant.

10 Diamond Aisle is located at the northeast corner
11 of Wilshire and Pearl in north central Anaheim. The site
12 is one block east of the Santa Ana Freeway, along Lincoln
13 Avenue.

14 Here is the freeway. Here is Lincoln Avenue.
15 Here is our subject property, right here (*pointing*).

16 This property is the assemblage of three parcels,
17 three remnant parcels, which resulted from the Interstate
18 5 freeway expansion.

19 The site obviously is irregular in shape,
20 containing approximately 36,962 square feet, or .85
21 acres.

22 As Ed has said, the project consists of
23 25 rental units. There are 15 one-bedroom units and ten
24 two-bedroom units. The common areas will include a
25 2,500-square foot resident service center, two common-use

1 washrooms, an elevator, a tot lot, common-area laundry,
2 and project offices.

3 This is a view of the site to the west.
4 Wilshire Avenue is on the left side of the screen.

5 Here is a view to the east, northeast, from the
6 intersection of Wilshire and Pearl. The subject parcel
7 is right on the corner.

8 This is typical rental housing in the area.

9 This is the view west, along Wilshire. The
10 subject property is on the right.

11 This is an artist's rendering of the elevations.

12 And this is an artist's rendering of the site
13 plan.

14 The project will be rented to a target
15 population of chronically homeless and severely
16 mentally-ill with a household income not exceeding
17 30 percent of area median income. And it will be
18 comprised of adult or an adult member eligible for
19 services under the Mental Health Services Act.

20 The one-bedrooms will be leased at \$439. Market
21 rents in the area are \$984 for a comparable unit.

22 Two-bedrooms will be leased at \$524, versus a
23 market rent of \$1,206.

24 The County of Orange Health Care Agency has
25 committed to provide, pursuant to the Mental Health

1 Services Act, funding for supportive services for the
2 duration of a 55-year HCD loan. These amounts will be
3 committed annually.

4 The Telecare Corporation will provide supportive
5 services by way of a contractual arrangement with the
6 County of Orange Health Care Agency; and social services
7 will be provided by Housing with HEART, which is a
8 501(c)(3) corporate affiliate of Jamboree Housing
9 Corporation.

10 MR. GIPSON: The project has a HAP contract to
11 operate for rental subsidies for it, and our loan is
12 based on a ten-year period to their 15-year contract.
13 And the County of Orange has also provided a guarantee
14 commitment behind that, in case some financing falls
15 through for operating subsidy as a backup as well.

16 With that, we'll answer any questions.

17 CHAIR COURSON: Are there any questions from the
18 Board?

19 Mr. Czucker?

20 MR. CZUKER: In terms of the presentation, I'm
21 wondering if we could ask staff in the future to include
22 the names of the principals because when a project is set
23 up and an LLC is formed, you have a fictitious business
24 name, and it's very difficult for the Board to understand
25 who the principals are behind the entities that we're

1 reviewing.

2 And as projects come before us, I think it would
3 be helpful, since many are repeat borrowers and many are
4 new borrowers, and it's very, very difficult to ascertain
5 the level of experience, prior track record, when we're
6 dealing with new names and fictitious names, either for
7 the project, such as the J.H.C. Diamond Aisle, LLC, who
8 are the principals behind that, and not just talking
9 about Jamboree Housing, but I think it would be helpful
10 to have who the partners are, who the principals are, and
11 some discussion as to their prior experience with CalHFA
12 and experience in the industry.

13 Thank you.

14 CHAIR COURSON: Thank you, Mr. Czucker.

15 I think that we'll take that under advisement.
16 I think that's a good idea to identify some of the
17 principals in case we have knowledge or past experience
18 with them.

19 MR. GIPSON: Absolutely, a portion of that's in
20 there; but we can get some more of the rest of the
21 information as well.

22 MR. CZUKER: Can you tell us who Diamond Aisle
23 L.P. is comprised of?

24 MR. GIPSON: It will be comprised of Jamboree
25 Housing as the managing general partner.

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1 The limited will be -- who turns out to be the
2 equity investor, which I don't know at this particular
3 time.

4 But as we go forward, we could put more of that
5 information in front of you.

6 MR. CZUKER: Who owns Jamboree Housing?

7 MR. GIPSON: It's a 501(c)(3).

8 MR. CZUKER: Who is the managing member? Who is
9 the one that --

10 MR. GIPSON: I couldn't tell you that off the
11 top of my head.

12 MR. KOLLIAS: We can ask.

13 MR. GIPSON: Only if he needs to know at the
14 moment.

15 MR. KOLLIAS: They're in the audience. Do you
16 want to ask?

17 MR. GIPSON: Do you need to -- we have members
18 of Jamboree Housing here, if you'd like.

19 MR. CZUKER: Okay, yes, I'd like to hear the
20 names.

21 CHAIR COURSON: If the representatives who are
22 here --

23 MS. GULLICK: Certainly.

24 CHAIR COURSON: Could you please identify
25 yourself for the Board?

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1 MS. GULLICK: Good morning, Board and Member --
2 I'm sorry, I don't see your last name.

3 MR. CZUKER: Edward Czucker.

4 MS. GULLICK: Czucker.

5 I'm Johanna Gullick, Housing Development
6 Director with the Jamboree Housing Corporation.

7 On page 6 of your report, there is a brief report
8 of Jamboree Housing Corporation, who we are. We are
9 officed in Irvine, Orange County, California. We own and
10 operate approximately 5,000 units throughout Southern
11 California, of which a good number of about a thousand are
12 in Northern California.

13 Our partner is HOMES. Helen Cameron, who is
14 their president, is here today. And they are our
15 social service and service partner.

16 We have about -- we have two projects currently
17 under construction in Orange County. We have six projects
18 going into the ground this year. And we have several
19 joint venture partners. Also we work with Preservation
20 Partners. We actually are partners with BRIDGE Housing on
21 a development.

22 And so anything else I can answer, I'd be
23 delighted to.

24 We're very pleased to be here. We have one
25 prior CalHFA loan with you.

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1 MR. CZUKER: Where is that one?

2 MS. GULLICK: You know, I -- where is it?

3 UNIDENTIFIED FEMALE: It's in North Orange
4 County.

5 MS. GULLICK: It's in North Orange County.

6 Is it Camden Place? We did it about five years
7 ago.

8 UNIDENTIFIED FEMALE: La Palma.

9 MS. GULLICK: La Palma. A very successful
10 development.

11 CHAIR COURSON: Other questions on the Diamond
12 Aisle Apartments project?

13 MS. GALANTE: First of all, a comment. I am
14 quite familiar with Jamboree, and I think they're a great
15 organization.

16 My comment, or my question is, is this project
17 already approved through the local planning body? This
18 looks like it would be a challenging approval process.
19 And I'm just wondering about that.

20 MS. GULLICK: I'd be delighted to answer that.

21 We held several community meetings. In fact,
22 this was a big success in Orange County. It was first
23 turned down by the redevelopment agency the first time it
24 went through; and the community stepped up, and it was
25 approved unanimously. We held about seven community

1 meetings, toured people through other developments
2 throughout Orange County. And really, it was the
3 community came together.

4 We have the general plan amendment and the zone
5 change are complete, and the entitlements for planning
6 are right now -- have been submitted, and it's an
7 administrative process.

8 So there's no more discretionary entitlements
9 nor approvals by the local planning commission, nor the
10 redevelopment agency housing authority, or the city.

11 MS. GALANTE: Congratulations.

12 MS. GULLICK: Thank you. It was quite a lot of
13 work.

14 CHAIR COURSON: Other questions?

15 Mr. Shine?

16 MR. SHINE: Are you saying that you don't yet
17 have the ability to pull your building permits for
18 lacking certain -- at whatever level, approvals from
19 government?

20 MS. GULLICK: No. We will get an administrative
21 approval of our planning permits within about two to
22 three weeks. So all of the discretionary approvals have
23 been -- are completed.

24 MR. SHINE: Okay, but you have yet to get from
25 government 100 percent of everything in the world you

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1 need to build a project at this moment in time?

2 MS. GULLICK: That's correct. We still need our
3 planning approval, which is administrative in nature.

4 MR. SHINE: I understand that part.

5 So then we're not going to fund this until
6 everything is done and permits are received; is that
7 right?

8 MS. GULLICK: That's correct.

9 MR. GIPSON: That is correct.

10 MS. GULLICK: That's a condition.

11 MR. GIPSON: We never fund until we have the
12 permits. Until we can pull permits.

13 CHAIR COURSON: Other questions? Comments?

14 Mr. Pavao?

15 MR. PAVAO: Yes, just a quick question.

16 So this project has a 15-year HAP contract for
17 all 24 units?

18 MS. GULLICK: Yes.

19 MR. PAVAO: And what is the relationship then of
20 the Governor's Homelessness Initiative, Prop. 46
21 capitalized rent subsidy? How does that fit into the
22 project?

23 MS. GULLICK: I'm going to let Perla Eston come
24 up and answer that.

25 MS. ESTON: Hi, my name is Perla Eston. I'm the

1 financial consultant on the project.

2 The \$180,000 is basically a reserve in case and
3 after the Section 8 expires. It will help either
4 transition to more affordable rents or be used to keep
5 the project at 30 percent affordability, even after the
6 Section 8 goes away.

7 There's an intermediate back-up step also of the
8 mental health services money also has rent-subsidy
9 commitment attached to it, which also is available if and
10 when Section 8 expires.

11 And in addition to that, out of the cash flow,
12 because of the Governor's Homeless Initiative, we're
13 required to fund substantial reserves out of the excess
14 cash flow, as long as the project-based vouchers are
15 available.

16 MR. PAVAO: Okay, so the Prop. 46 funds then are
17 really sort of just a --

18 MS. ESTON: It's like an operating reserve.

19 MR. PAVAO: -- transition reserve?

20 MS. ESTON: A transition reserve.

21 MR. GIPSON: Yes.

22 MR. PAVAO: Okay, so it's not forecasted that
23 that would be drawn on over the years? Rather --

24 MS. ESTON: No, only in the event that one or
25 the other or all of the subsidy contracts go away.

1 MR. PAVAO: Okay, thanks.

2 CHAIR COURSON: Other questions or comments on
3 the project?

4 *(No audible response)*

5 CHAIR COURSON: If not, I think a motion to
6 approve is in order.

7 Mr. Czucker?

8 MR. CZUKER: A point of clarification. I
9 understand that the project sponsors have done business
10 or are partners on another deal with BRIDGE Housing.
11 Should BRIDGE Housing abstain from this particular vote?

12 CHAIR COURSON: Well, I guess I would ask
13 counsel to comment.

14 MR. HUGHES: I think that question gets back to
15 the previous memos that I sent to the Board on how to
16 judge conflicts. It depends on who the Board member is
17 and what their position is.

18 But in terms of BRIDGE Housing, the non-paid
19 executive director of -- or excuse me, the paid executive
20 director -- the paid director of a nonprofit is what
21 I was attempting to say -- has a remote interest, and can
22 recuse themselves if there's a direct involvement. I
23 have no knowledge of the extent of what the relationships
24 are, if any.

25 MS. GALANTE: I would just comment. We don't

1 have -- BRIDGE has a relationship with Jamboree on another
2 project, not on this project in question at all. So I
3 don't see what the conflict would be.

4 MR. HUGHES: I think that if there's no
5 connection at all and there isn't a financial interest,
6 directly or indirectly, that BRIDGE would have -- I don't
7 think it would be an issue.

8 MS. GALANTE: There is not.

9 MR. HUGHES: And what has happened in the past
10 with Board members is that they can make an election to
11 recuse themselves, not based on an actual conflict, but
12 an appearance if they so choose in that event.

13 As a general reminder, if there is a possibility
14 of a Board member having a financial interest in a
15 project, of course, it's strongly advisable to let us
16 review it ahead of time so we can get into the detail of
17 that. But it would appear on the face of it that that's
18 not an issue.

19 CHAIR COURSON: Is there a motion to approve the
20 project according to the resolution on page 141?

21 MR. PAVAO: So moved.

22 CHAIR COURSON: Mr. Pavao.

23 Is there a second?

24 MR. CAREY: Second.

25 CHAIR COURSON: There's a second by Mr. Carey.

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1 Any further discussion?
2 (No audible response)
3 CHAIR COURSON: Are there any comments from the
4 public?
5 (No audible response)
6 CHAIR COURSON: Seeing none, we'll call the
7 roll.
8 MS. OJIMA: Mr. Pavao?
9 MR. PAVAO: Yes.
10 MS. OJIMA: Mr. Carey?
11 MR. CAREY: Yes.
12 MS. OJIMA: Mr. Czucker?
13 MR. CZUKER: Yes.
14 MS. OJIMA: Ms. Galante?
15 MS. GALANTE: Yes.
16 MS. OJIMA: Ms. Jacobs?
17 MS. JACOBS: Yes.
18 MS. OJIMA: Mr. Moore?
19 MR. MOORE: Yes.
20 MS. OJIMA: Mr. Davi?
21 MR. DAVI: Yes.
22 MS. OJIMA: Mr. Shine?
23 MR. SHINE: Yes.
24 MS. OJIMA: Mr. Courson?
25 CHAIR COURSON: Yes.

1 MS. OJIMA: Resolution 07-01 has been approved.

2 CHAIR COURSON: Thank you.

3 --o0o--

4 **Item 5. Resolution 07-02, Coyote Run Apartments Phase II**

5 CHAIR COURSON: Our next project is the Coyote
6 Run Apartments Phase II, in Palm Springs.

7 MS. WHITTALL-SCHERFEE: Good morning. This is a
8 request for a modified final commitment on Coyote Run
9 Phase II. Coyote Run Phase II is a project in Palm
10 Springs, Riverside County. It's a 66-unit project that
11 the Board approved a construction and a permanent loan
12 on, in September of 2003.

13 Since that time, the project has been
14 constructed. It is 100 percent occupied. And we are
15 currently ready to convert the loan from construction to
16 perm.

17 However, due to cost overruns, the borrower had
18 to significantly come out-of-pocket. And they have asked
19 for an increase in the permanent loan, from \$1.6 million
20 that was originally approved, to a \$2 million permanent
21 loan. And that is the subject of our request today.

22 The borrower is a limited partnership, and the
23 managing general nonprofit is Coachella Valley Housing.
24 Coachella Valley Housing is headed by John Mealey. And
25 today we have Steven Crowell with us, who's available if

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1 there are any questions.

2 Coachella Valley also has one other project
3 that they have through CalHFA, and that is Las Casas Phase
4 III.

5 And if you're interested in a more detailed
6 explanation as to the borrower and the partnership
7 structure, that's available on page 158 of your Board
8 package.

9 At this point, Tina Ilvonen, who is the loan
10 officer on this project, is going to take you through the
11 project and explain a little bit more about the cost
12 overruns and the purpose of our request today.

13 MS. ILVONEN: Good morning.

14 Can everybody hear me okay?

15 MS. WHITTALL-SCHERFEE: Yes.

16 MS. ILVONEN: Okay, this is an aerial view of
17 the project looking to the east. The project is two
18 miles from the airport in the northwestern section of
19 Palm Springs. The site is south of Interstate 10 and
20 Indio Hills, and north of Highway 111.

21 These aerial views were taken when we went to
22 Board in 2003. So the project is complete now and this
23 land is not vacant.

24 This is a 6.7-acre site. And --

25 MS. WHITTALL-SCHERFEE: Okay, we're having

1 technical difficulties.

2 Do you want to show that?

3 MS. ILVONEN: Yes.

4 And this is the Phase II site, this "L" right
5 here. And this is the city park that has been built,
6 along with the Phase II site.

7 This is Phase I right here, and the project is
8 connected to Phase I. And there is a child-care
9 development center right in this section of Phase I
10 that's cut off from the picture.

11 This site here is developed with single-family
12 homes that are selling for \$450,000.

13 This site here is developed as well.

14 And this is Sunrise.

15 The project is 66 units. It was completed in
16 August 2006. It consists of 17 residential buildings and
17 one community building.

18 The project also has 75 carports and 68 open
19 spaces on-site for parking.

20 The Palm Springs Unified School District
21 operates a Head Start and state preschool program out of
22 the Early Childhood Development Center on-site at
23 Phase I. Although this is a picture of Phase II.

24 This is the community building lease office,
25 which is 2300 square feet. It contains a management

1 office, laundry room and restrooms, kitchen, and meeting
2 room. And here's the pool off to the left.

3 The reason for this loan increase request is
4 because of construction cost overruns of approximately
5 \$810,000. Other cost increases for the project include
6 architecture and engineering increases of approximately
7 \$148,000, and construction interest increases of
8 approximately \$120,000 from the original Board request.

9 The sponsor has covered a portion of these
10 overruns, and is currently out-of-pocket for \$480,000.

11 This is just a schematic of the site. Again,
12 here is the connection to Phase I, it is right here
13 *(pointing)*. This is Sunrise. This is the main entrance
14 to the project. This is the city park.

15 Other revisions in the financing since the Board
16 approval include an equity increase of \$600,000 by
17 National Equity Fund, and the deferred developer fee is up
18 by \$120,000, even with this \$400,000 loan increase
19 request.

20 These are the current rents for the project
21 which are based on 2006 rents, whereas the original rents
22 were based on 2003 rents. The rents are 72 to 79 percent
23 of market rents as of 2003.

24 The project has been 100 percent occupied since
25 September.

1 And expenses for the project are up from
2 3,614 per unit, per the original Board write-up, to
3 4,325 per unit, per this write-up and per the operating
4 budget. And the cash flow is 1.18 debt coverage in year
5 one.

6 And with that, I'm going to open it up for any
7 questions.

8 CHAIR COURSON: Thank you.

9 Questions or comments on the Coyote Run Project?

10 MS. PARKER: Mr. Chairman, could I just make one
11 comment?

12 I guess for the refreshment of the Board
13 members' memories, the staff have delegated authority up
14 to -- Tom, is it 7 percent?

15 MR. HUGHES: Yes.

16 MS. PARKER: -- for variance in the loans once
17 you approve them. That is not an absolute that staff
18 adhered to. To the extent that there are any sensitive
19 issues, irrespective of the percentage, they would bring
20 them back. But clearly, that's the reason why we brought
21 this back. It's above that discretionary ceiling, and
22 we've gone through this; and to be in compliance with
23 that, we ask for your approval.

24 CHAIR COURSON: Mr. Morris?

25 MR. MORRIS: Yes, you're showing the appraisal

1 using a cap rate of 7 and a half percent.

2 What is the net operating income figure that
3 you're using, for year one?

4 MS. ILVONEN: That appraisal was done in 2003.

5 MR. MORRIS: Okay.

6 MS. WHITTALL-SCHERFEE: Yes, and we do not do an
7 updated appraisal when we get ready to convert to
8 perm. We just use actual rents and we use actual
9 expenses.

10 MR. MORRIS: And what were the actual rents last
11 year?

12 I have got these projections.

13 MS. ILVONEN: The actual rents were shown in
14 that last slide that was up.

15 MS. WHITTALL-SCHERFEE: Let me bring it back up.

16 These rents are actual rents. These are what
17 tenants are paying today.

18 MR. MORRIS: So the net operating income last
19 year was what?

20 MS. WHITTALL-SCHERFEE: Last year, the project
21 wasn't constructed. The project was completed in
22 September.

23 MR. MORRIS: Okay, but this year it's fully
24 leased?

25 MS. WHITTALL-SCHERFEE: Yes.

1 MR. MORRIS: So what will the net operating
2 income -- the projected net operating income be this
3 year?

4 That would be this figure right here (*pointing*);
5 right? That would be the one fifty-six?

6 MS. ILVONEN: Yes, yes. Net operating income
7 for the year, assuming 95 percent occupancy, is 156,000.
8 And they've been at 100 percent occupancy since
9 September.

10 MR. MORRIS: Okay, so if you took that
11 one fifty-six, and what are you saying now is kind of a
12 market-rate cap? I mean, I understand that the appraisal
13 was done at 7 and a half, but what would you guess now
14 would be a value for that type of product?

15 MS. ILVONEN: I haven't looked at any current
16 appraisals in the Palm Springs area to know if caps have
17 gone up and down.

18 MS. WHITTALL-SCHERFEE: And we've seen everything
19 from 5 and a half to 7. But I'm not sure in the Palm
20 Springs area what would be relevant.

21 And I'm looking at Steve Crowell, and he is kind
22 of shrugging his shoulders. I don't think we have an
23 answer for you.

24 We could find out by talking to an appraiser, if
25 that's something you'd like to know.

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1 MR. MORRIS: Okay, so if you, say, used a 6, the
2 value would be somewhere around 2 and a half to
3 2.6 million?

4 MS. ILVONEN: And I also don't have a calculator
5 on me.

6 CHAIR COURSON: Other questions or comments?

7 *(No audible response)*

8 CHAIR COURSON: If not, Mr. Morris, do you have
9 the -- well, I know you don't have an answer, but do you
10 have enough facts?

11 MR. MORRIS: Yes.

12 CHAIR COURSON: Okay.

13 Then if not, then call for a motion.

14 The resolution is on page 189 of your Board
15 book. It's Resolution 07-02.

16 Is there a motion to approve?

17 MS. GALANTE: I'll move approval.

18 CHAIR COURSON: Okay, Ms. Galante.

19 Is there a second?

20 MR. CAREY: Second.

21 CHAIR COURSON: Mr. Carey?

22 Is there any further discussion or questions on
23 the project?

24 *(No audible response)*

25 CHAIR COURSON: Any comments or questions from

1 the public?

2 Okay -- I'm sorry, Mr. Czucker?

3 MR. CZUKER: I noticed in the package that
4 there's a deferred developer fee of 135,000,
5 approximately, against approximately 1.3 million and
6 change in developer fee.

7 Given the cost overruns, is there any attempt to
8 increase the deferred developer fee so that the million
9 three fifty --

10 MS. ILVONEN: I can answer that.

11 MR. CZUKER: -- developer fee, a greater portion
12 is deferred to ensure there aren't additional cost
13 overruns, and that this is the very end, the last time we
14 see this request?

15 MS. ILVONEN: There is also general partner
16 equity of \$665,000 that is not being taken as developer
17 fee; in addition to the 134,000 that is a deferred
18 developer fee that may or may not be paid back to the
19 developer from cash flow. But the 665,000 will not be
20 paid back to the developer.

21 Where is developer fee?

22 So that leaves the developer fee of about
23 600,000 total.

24 MR. CZUKER: Are you counting the six hundred as
25 an offset from the million three-fifty?

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1 MS. ILVONEN: The six sixty-five -- you should
2 subtract the six sixty-five from the million three
3 eighty-five.

4 MR. CZUKER: Okay.

5 CHAIR COURSON: Other questions?

6 *(No audible response)*

7 CHAIR COURSON: Seeing none, we'll call the
8 roll.

9 MS. OJIMA: Mr. Pavao?

10 MR. PAVAO: Yes.

11 MS. OJIMA: Mr. Carey?

12 MR. CAREY: Yes.

13 MS. OJIMA: Mr. Czucker?

14 MR. CZUKER: Yes.

15 MS. OJIMA: Ms. Galante?

16 MS. GALANTE: Yes.

17 MS. OJIMA: Ms. Jacobs?

18 MR. JACOBS: Yes.

19 MS. OJIMA: Mr. Morris?

20 MR. MORRIS: Yes.

21 MS. OJIMA: Mr. Davi?

22 MR. DAVI: Yes.

23 MS. OJIMA: Mr. Shine?

24 MR. SHINE: Yes.

25 MS. OJIMA: Mr. Courson?

1 CHAIR COURSON: Yes.

2 MS. OJIMA: Resolution 07-02 has been approved.

3 CHAIR COURSON: Thank you.

4 --oOo--

5 **Item 6. Bay Area Housing Plan Financing**

6 CHAIR COURSON: Item 6 on our agenda is our
7 regular update on the Bay Area Housing Plan by Kathy and
8 Edwin.

9 MR. GIPSON: Good morning.

10 In front of you, you should have a two-page
11 handout from us, listing off some of the properties and
12 the status of those properties.

13 And Kathy is going to give us the latest update
14 on where we are with the Bay Area Housing Plan now.

15 Thanks.

16 MS. WEREMIUK: Chairman Courson and Members of
17 the Board, it's a pleasure to be here with you again
18 today.

19 On the handout, as you look at it, it will show
20 that since the last Board meeting, the Agency approved
21 three commitments for properties. It's in the first 24.

22 We've approved 23 commitments total, three since
23 the last Board meeting, and five properties have been
24 acquired since the last Board meeting, bringing the
25 Agency's total commitment to \$40 million, which is

1 \$25 million below what you've approved.

2 Consistent with the decisions at the last Board
3 meeting, we have not approved additional properties
4 pending a resolution of a discussion with the Regional
5 Centers and the Department of Developmental Services as
6 to how the additional \$11,115,000 is going to come into
7 the project, which the Regional Centers have agreed to
8 put in as equity to reduce what our fairly high costs
9 that the Agency has been concerned about.

10 We have reached -- and pending that, a resolution
11 of that issue in contract language being written between
12 DDS and the Regional Centers, allowing them to use that
13 money, we have not agreed to take forward additional
14 commitments.

15 We have had several meetings with them, the most
16 recent of which was last week. That meeting was very
17 productive. We have a tentative agreement that they are
18 going to be putting in \$156,000 per property, on average.
19 The average will not be based on a loan-to-value ratio,
20 but instead, a per-property cost, per-property type, and
21 per-catchment-area type. And that's the final detail
22 that we need to work out in the agreements with the
23 Regional Centers.

24 We're hopeful that that agreement will be
25 reached -- that agreement will be reached sometime next

1 week. But in terms of -- on the major issues between
2 ourselves, we do have an agreement.

3 In the interim, while we have not committed to
4 new loans, the Hallmark Community Services has used other
5 sources of funds to take down three additional
6 properties. And the properties that are in blue are
7 properties that they have purchased with funds other than
8 the Bank of America syndicate credit line. They've used
9 funds from the Regional Centers, and they have gone
10 forward with their purchases. They also have added four
11 more properties for a total, I believe, of 38 -- it will
12 be 37 properties to the pipeline.

13 You will notice that -- or I have noticed that
14 the totals on the pipeline take us above our
15 commitment -- or right up to our commitment level and
16 above Bank of America's commitment level. Right now,
17 they have properties in the pipeline that total a little
18 over \$70 million.

19 Those totals, they have a proposal into
20 ourselves and to Bank of America to take down seven
21 properties, a total of about \$10 million that require no
22 rehab and do that as a pass-through through the Bank of
23 America line; not adding it to their credit limit. We
24 are in discussions with them about that, but we have not
25 taken any action on it pending a resolution on the

1 additional equity issue.

2 The other item that I have to report is not as
3 favorable. We have no properties at this point in
4 construction. They have had some setbacks in that
5 regard. Their design-build contract with Fine Line
6 did not work out. Fine Line was not able to meet their
7 time-lines or to produce; and they terminated that
8 contract. They're going through a -- they're going to act
9 as their own construction manager. They have staffed up,
10 and they have gone out to bid with four different
11 contractors. They expect to award some of the bids
12 within the next week or two.

13 We have -- they do have 11 properties that have
14 gone through the design stage and are in the various
15 building departments for permits. They have another nine
16 in the design stage.

17 Two are prefabs. They do have design on a
18 prefab that they're still negotiating with prefab
19 contractors; and one was on hold pending the resolution
20 of a homeownership issue that we resolved between
21 ourselves and Bank of America with them this week.

22 We have had concerns -- both Bank of America and
23 ourselves have had concerns about the slowness of
24 getting properties into construction, and are in ongoing
25 discussions with them.

1 And I think that would conclude my report.

2 CHAIR COURSON: Are there questions on the
3 project, or Kathy or Edwin's status report?

4 *(No audible response)*

5 CHAIR COURSON: I guess we'll see you in two
6 months.

7 MS. WEREMIUK: Thank you.

8 --o0o--

9 **Item 7. Report of CalHFA Board of Directors**

10 **Compensation Committee**

11 CHAIR COURSON: The next agenda item is the
12 report of the Compensation Committee. And as chair of
13 Compensation Committee, let me make a few opening
14 comments --

15 MR. HUGHES: Mr. Chairman, sorry.

16 CHAIR COURSON: Oh, yes, I know. Go ahead.

17 MR. HUGHES: I'm sorry. As I had reported to the
18 Compensation Committee earlier and now to the full Board,
19 I've recused myself from advising the Board in my
20 capacity as the secretary and general counsel. And Sandy
21 Casey-Herold, the deputy general counsel, has been
22 advising the Compensation Committee all along. So Sandy
23 and I will trade places at this time.

24 CHAIR COURSON: I think it's appropriate that we
25 start and not go back over items we discussed before, but

1 I think to make sure that everybody starts out on the same
2 basis.

3 We're all aware of the legislation that was
4 approved and signed by the Governor. And through our
5 deliberations -- let me mention that Mr. Czucker and
6 Mr. Morris are the other two members of the committee,
7 along with myself -- that the legislation contains some
8 standards and very specific items and methodology
9 discussions that we've been very careful in our
10 deliberations in our committee meetings to follow.

11 And having done that, not to repeat what some
12 may know, but I think it's important to look at parts
13 that at least in my mind have driven the process that
14 we've been using to come where we are today.

15 Some of that is that in the legislation, it says
16 that the Act enables the Board to attract and retain key
17 personnel by clarifying the Board's authority to
18 establish compensation for key executive and management
19 positions. This compensation will be competitive with
20 that of other comparable state and local housing
21 financing entities according to the salary survey
22 methodology reviewed by the Department of Personnel. The
23 compensation of key exempt management -- and then it lists
24 the ten positions that we're talking about today -- shall
25 be established by the Board and the Agency's annual budget

1 in amounts which are reasonably necessary in the
2 discretion of the Board to attract and hold a person of
3 superior qualifications.

4 In addition to that, it goes on, which we'll
5 talk about when we talk about the survey, some specifics
6 in terms of hiring of an independent outside advisor,
7 salary surveys, and some specifications for what would be
8 included in that survey.

9 So I think that we just need to be mindful, and
10 I continue to try to remember that our job as a committee
11 and as a Board is to assure that all we do is in
12 compliance with the law that the legislation was passed
13 and signed by the Governor.

14 Having said that, as you know, a couple of
15 meetings ago, we approved a charter for the Compensation
16 Committee, which really sort of gave us a road map as to
17 how to conduct our activities and bring us to the point
18 we are today of making recommendations to this Board.

19 The Committee, and I thank Mr. Morris and
20 Mr. Czucker -- we've worked hard. We've spent a lot of
21 time looking at a lot of information. We have met face
22 to face on two occasions -- actually, three occasions,
23 twice in the Los Angeles area and then once here
24 yesterday, to complete our deliberations. Those meetings
25 were busy and intense, and we have covered a lot of

1 information. And really coming from a blank sheet of
2 paper, given our guide from our charter and the
3 legislation, I think we've accomplished a lot of ground,
4 and we'll share that with you today.

5 Let me sort of parse out how we went about this,
6 and then I'll introduce the folks who have been a key
7 ingredient in helping out on this. We really started --
8 the first meeting we had was one wherein we really
9 reviewed or did review after the completion of the survey,
10 the survey information that was provided. And the members
11 of the Board should have -- and I believe you all should
12 have, I see around, the binder, which is the Watson Wyatt
13 survey. And then at the second meeting we had, was given
14 the survey, and we'll talk a little bit about how we got
15 additional information.

16 And we really then said we're now ready to move
17 on and try to establish some salary grades, and
18 commensurate ranges of salaries for each of those grades.
19 And I believe that you have that. That was submitted to
20 you, along with the package of materials.

21 And then our job meeting last night was to take
22 that information and do personnel reviews of the
23 specified positions, and ask the executive director, as
24 it says in our charter, to make recommendations for
25 specific salaries for these individuals.

1 So that's sort of the Reader's Digest version of
2 what we've done and where we've been. And I'd like to go
3 back now because I think this is obviously of great
4 importance, and we'll go through in some specificity of
5 some of the work that we've done.

6 You have met, and at our last Board meeting Pat
7 Meehan was with us. Pat has been our consultant on this
8 project. Pat has 39 years of service, state service in
9 California, and last served as the chief deputy director
10 of the Department of Conservation. Has worked in
11 several other agencies, including the Department of
12 Finance, where she was the chief of administration. So
13 she has certainly a background in personnel and human
14 resources matters, and was selected to be a consultant to
15 us and help us really staff, if you would, the functions
16 of the Committee.

17 She's joined by Michael Oclaray. Michael is
18 with Watson Wyatt, and has met with the Committee in two
19 meetings, our first two face-to-face committee meetings.
20 And we'll talk a little bit about his help and assistance
21 as we move through it.

22 But, Pat, I think the place to start is really
23 talking a little bit about putting out a request for
24 proposal, and then move in and let Michael talk about the
25 survey work.

1 MS. MEEHAN: Okay, fine. Thank you,
2 Mr. Chairman, Members of the Board.

3 The proposals were requested from a number of
4 firms, based on the firm's experience in dealing with
5 salary surveys, and their familiarity with the mortgage,
6 banking, and financial institutions.

7 Watson Wyatt was selected. We believe that
8 because they were housed close and a California-based
9 company, that that would expedite the process. They had
10 also done similar work for the California Public
11 Employees' Retirement System.

12 It was determined that the most comprehensive
13 approach would be to utilize three distinct sources of
14 data. A custom survey was developed by Watson Wyatt to
15 assess housing finance agencies nationally, and then they
16 also suggested the use of published salary data for
17 similarly-sized organizations, both profit and
18 not-for-profit.

19 As John mentioned, my role has been to develop a
20 contract with the consultant and to provide liaison
21 between the Compensation Committee, the Board, and
22 CalHFA.

23 The methodology and the process information was
24 provided to the Department of Personnel Administration as
25 required by statute. And the report was provided to the

1 Board in December.

2 CHAIR COURSON: Okay, and, Michael, maybe now
3 you can take us through sort of the survey process, and
4 then, I trust -- I will assure the Board, we are not --
5 unless you choose, we are not going through every page in
6 the survey. But, Michael, I think it's very important
7 that we do get an understanding of how it was done and
8 how these ranges were determined.

9 MR. OCLARAY: It's also not my intention to even
10 look in the book, unless any of the Board members want to
11 look at a specific page.

12 I just wanted to step back and just give the
13 Board a little bit more information about Watson
14 Wyatt, our firm. Watson Wyatt is one of the world's
15 largest human resource consulting firms. We've got about
16 6,000 employees, annual revenue of about \$1.3 billion,
17 and our employees are in 90 offices throughout about
18 30 countries. We're also a publicly-traded company. Our
19 stock is traded on the New York Stock Exchange.

20 As explained, we are engaged by the Agency to
21 conduct this study, and to be the third party in
22 conducting the study. The study covered the ten
23 positions that we're discussing today, and analyzed
24 competitive compensation-based salary as well as total
25 cash compensation, which for some organizations can

1 include annual short-term incentives.

2 And it also included an analysis of mix -- a
3 typical mix of pay and benefits.

4 The study included two parts, as Pat briefly
5 mentioned. The first was a custom survey of selected
6 organizations. Twenty-two organizations were invited
7 to participate. Those organizations were other housing
8 finance agencies, as well as other nonprofit and
9 government-sector organizations that were deemed to be
10 similar in nature, and with similar roles to those of
11 CalHFA.

12 In addition to the -- I should speak about that
13 custom survey process. What we do as the third party --
14 what Watson Wyatt does as the third party for a custom
15 survey is we work with the organization to design a
16 survey questionnaire, a tool to collect data. The
17 questionnaire was sent to the organizations. I had
18 mentioned that there were 22 organizations that were
19 invited to participate. I believe all but four did agree
20 to participate.

21 CHAIR COURSON: And I will say, they are on
22 page 6 of the binder.

23 MR. OCLARAY: Thank you.

24 And each organization completed the
25 questionnaire and then returned them to Watson Wyatt.

1 We, in turn, reviewed the data carefully, did any data
2 cleaning we needed to do, went back and contacted any of
3 the organizations if any questions arose from our end so
4 that we fully understood the data. And then we compiled
5 the information in statistical format. In other words,
6 we provide pay statistics of the 25th, 50th, and
7 75th percentiles, so to maintain the confidentiality of
8 any particular organization's compensation or responses
9 back to us. So, again, that was a key part of our role
10 as the consultant, is in that sort of third-party
11 capacity.

12 In addition to the custom survey data, we
13 supplemented it with published survey data from a couple
14 of published compensation surveys, including our own --
15 Watson Wyatt's own survey -- and a survey conducted by
16 another HR consulting firm, Mercer Human Resource
17 Consulting. And that data is broader in nature. It is
18 not what I've just described as a custom survey, where we
19 go out and go to individual companies. But instead, it's
20 a broader cross-section of organizations, and include --
21 the data that we looked at from those surveys includes
22 other not-for-profit organizations and in some cases,
23 other for-profit organizations that are similar in size
24 and with similar roles to CalHFA.

25 The key there being that, in general, the

1 Committee had access to different cuts of data, if you
2 will, that the intention being that the data is
3 reflective of the competitive market for talent which in
4 many cases could include other agencies, in many cases --
5 or in some cases, may include other organizations outside
6 that particular realm.

7 With respect to the findings, just the
8 high-level findings, if you've had a chance to review
9 the report at all, you'll see that, in general, CalHFA's
10 positions' salary falls below the market in relation to
11 the published survey data, just about in all cases.

12 With respect to the custom survey data, many of
13 the positions also fall below the market. When I refer
14 to "market," I'm speaking of the 50th percentile, the
15 midpoint of the market data that we had. And in a couple
16 cases, it falls at the market. But again, for the most
17 part, the positions were falling below market.

18 Before I -- maybe that should be a stopping
19 point.

20 Are there particular questions?

21 CHAIR COURSON: Are there questions? I mean,
22 I know it's a lot of material. You'll see, I think that
23 some of the key elements I take are -- one is the ten
24 positions that you can see there. You can see there are
25 really three databases available to the Committee. One

1 was the for-profit, one was the not-for-profit, and then
2 the custom. And for each of the positions, with one
3 exception, that being the director of Mortgage Insurance,
4 where there weren't comparable jobs sufficient in the
5 custom area to have a viable database, you won't see it
6 there, but clearly that there was some market information
7 available there. So that was the material for each of the
8 ten positions.

9 I think it's also important in there to note
10 that -- you'll see, when the methodology in the survey
11 was presented to DPA, they did have some questions. And
12 you'll see those questions and Watson Wyatt's response,
13 and the response that we gave back to DPA to satisfy
14 their inquiry. So we've met that standard in the law,
15 of going back and forth between DPA and ourselves.

16 But clearly, if there are other questions on the
17 survey itself, the methodology, the material -- let me
18 move then -- I'm going to take a step further. Because
19 when we looked at this, as a committee, in our first
20 meeting, we spent an awful lot of time and talked about
21 methodology, and questions were raised about do we have
22 the right mix; do we have the right people in the custom
23 survey, was the selection of those 22 people -- and we
24 went through the discussion with that. And then I think
25 out of that, made a request that Pat Meehan gather

1 specific, additional information for us by getting
2 specific compensation information from participants in
3 the survey.

4 Watson Wyatt, clearly in their role, cannot
5 release, and appropriately so, the specific information
6 from each of the participants. It's confidential. They
7 take it in that nature.

8 But we asked Pat, knowing who was in the
9 survey, to go back to I believe it was six of the
10 participants, and ask if they would give their specific
11 data to us so we could have that.

12 Pat, do you want to talk about that? Because I
13 know you put that process in place.

14 MS. MEEHAN: Sure. I requested additional
15 information from three of the housing finance agencies:
16 Virginia, Colorado, and Massachusetts. In addition,
17 I requested information from three state agencies that
18 were not in the survey, which were the State Teachers
19 Retirement System, the Public Employees' Retirement
20 System, and the State Compensation Insurance Fund, and
21 provided that to the Committee.

22 MR. MORRIS: They were in the survey.

23 MS. MEEHAN: Pardon me?

24 MR. MORRIS: They were in the survey.

25 MS. MEEHAN: Oh, they were?

1 CHAIR COURSON: Yeah, we went back. All six
2 that we asked for information for were in the survey,
3 CalPERS, CalSTRS, Insurance Fund, Mass., Colorado, and
4 Virginia.

5 And we did receive data back from all of those,
6 except Virginia.

7 MS. MEEHAN: Correct.

8 CHAIR COURSON: So having done that at our
9 second meeting now, we had this survey and we had
10 specific information from those entities -- those five
11 entities on specific -- on the ten jobs.

12 And I believe that additional information was
13 also given to you, so you now have the same thing we had
14 in terms of when we sat down a second time at our
15 Committee meeting.

16 MR. MORRIS: Mr. Chair, I wanted to mention they
17 were in the survey, but we didn't have the specific
18 numbers. So what we asked you to do is get from those
19 specific organizations, specific numbers. But they were
20 included in the universe of the 22 that we sent
21 information to.

22 MS. MEEHAN: That was my error.

23 MR. MORRIS: Right.

24 CHAIR COURSON: So we had that information now
25 at our second meeting and met, and our job at the second

1 meeting was to take all of this information we had then
2 and try to formulate a salary matrix or salary grades, if
3 you will, much along the line of what you see in terms of
4 the format of Watson Wyatt, identifying jobs and
5 appropriate salary ranges.

6 I must say as the chairman -- and this is my
7 third time through chairing an organization and the
8 compensation committee going through the same process, I
9 have never done it starting with a blank sheet of paper.
10 I've always been able to come in and take over on an
11 existing.

12 So I went to the meeting with great apprehension
13 as to, frankly, how we were going to accomplish this. We
14 had lots of information.

15 And I will say to Michael, I'll say it to you,
16 I think you did a very good job, an excellent job of
17 helping us keep order, giving us a way of approaching
18 this, that got us through that difficult task. And I
19 appreciate that. And you might explain sort of how the
20 methodologies you gave us, how we approached that.

21 MR. OCLARAY: Sure. I would be glad to. Thank
22 you for that.

23 Many of you are familiar with how salary
24 structures look at other organizations, where you have
25 salary grades. And those grades encompass positions that

1 are at similar levels, both internally within the
2 organization, as well as externally, in terms of market
3 compensation.

4 And so the approach that the Committee took, was
5 to identify positions that are in similar levels, and
6 came up with five different salary grades. That was
7 really the first step.

8 The second step then was to go grade by grade
9 and refer to the market data, and come up with a salary
10 range for each grade.

11 The primary data that were used by the Committee
12 to begin that process were the custom survey data. And
13 specifically, the 50th percentile -- in most cases, the
14 50th percentile data point from, again, the custom survey
15 cut of information. And that became the starting point
16 for range development; and specifically was set, in most
17 cases, at the midpoint of the range. That was done by
18 each level. And in addition to setting the midpoint, the
19 range includes a minimum and a maximum around that
20 midpoint. The minimums and maximums were set at about the
21 25 percentile and the 75th percentile, respectively.

22 So the ranges in the end, from my perspective,
23 are market-based ranges, number one; and, secondly, each
24 range is wide enough, in our view -- Watson Wyatt's
25 view -- to allow for movement of an incumbent up into a

1 range, or throughout a range, from minimum to max, not
2 only current incumbents but future incumbents, based on
3 each incumbent's experience and time at position and
4 performance.

5 CHAIR COURSON: Thank you, Michael.

6 Let me talk about that a little more.

7 The first job we did do was really grouping of
8 positions, and as I said, that was the methodology.

9 The other, what we did was, frankly, we had flip
10 charts around. And for every position, we took every
11 comparable piece of information we had and put them on
12 flip charts. So when we were look at a position, we
13 would have the midpoint for a job from maybe three or
14 four different sources. And we'd at least see how those
15 midpoints clustered together, and see if we could make
16 some sense out of where a midpoint might -- using all of
17 that different data.

18 And sometimes we'd say, "Well, this particular
19 comparable organization -- is more comparable to our
20 organization than another."

21 So if you look -- and we have, and we're clearly
22 happy to share -- we have these charts with all
23 of these different numbers on them for each position, by
24 each of the participants that we were able to use to
25 identify to reach that.

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1 The other thing I will say is this is the first
2 year of a process. The Compensation Committee will be an
3 ongoing committee. The grades that we have established
4 and the salary ranges, minimum, maximum, and midpoints
5 that we have recommended are just that, they're
6 recommendations to the Board. We're going to discuss
7 them in a minute.

8 But know also that every year, that we have --
9 and we will appropriately revisit not only the grades,
10 but the job groupings, the minimums and maximums. This
11 is an ongoing proposition. This is our starting point.
12 It does get easier once you get a point to start from, but
13 every year this will be reviewed by the Compensation
14 Committee and the Board.

15 So we're approving this, but I want to make it
16 clear that that is what we're approving or discussing
17 today, is for utilization for establishing this year's
18 salary, and does not mean that a compensation committee
19 next year or a Board next year may not choose to come
20 back and change groupings, or change things as we get more
21 experience and we see how this operates.

22 After you have -- and if you don't have it, we
23 have copies -- you were furnished a sheet that looks like
24 this (*indicating*), that's called the "Preliminary Salary
25 Structure by Compensation Committee 1/9/07." If you don't

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1 have it, you do need it.

2 MR. OCLARAY: I have extra copies for anyone who
3 needs it.

4 CHAIR COURSON: I want to make sure everybody has
5 got one in front of them.

6 Does everybody have a copy now?

7 MS. JACOBS: Terry doesn't, so we're sharing.

8 CHAIR COURSON: No?

9 So -- Mr. Carey?

10 MR. CAREY: Two sort of practical questions, and
11 I don't know when or --

12 CHAIR COURSON: Now is as good of time as any.

13 MR. CAREY: Okay. Do these employees
14 participate in Social Security?

15 CHAIR COURSON: Yes.

16 MR. CAREY: Okay.

17 MR. MORRIS: We're just looking at base. These
18 surveys, by the way, we're just purely looking at base.
19 We're not looking at any other form of compensation.

20 CHAIR COURSON: Yes, the survey is base salary.
21 It does not roll in value of benefits or -- it's just
22 base salary.

23 MR. MORRIS: And there's no --

24 MR. CAREY: Well, for instance, teachers don't
25 pay into Social Security, which does have a differential

1 effect of compensation.

2 MR. MORRIS: We didn't balance them.

3 CHAIR COURSON: I personally can't answer it.

4 Can someone in the room answer if the CalHFA
5 employees that we're talking about pay Social Security?

6 UNIDENTIFIED FEMALE: Yes.

7 CHAIR COURSON: Yes, they do?

8 MR. CAREY: Great. Thank you.

9 The second question is, in the report it does
10 seem to indicate some valuation for retirement benefits.

11 CHAIR COURSON: Yes. Peter, what page is that?

12 MR. CAREY: I'm just looking at the summary
13 chart on page 30.

14 And my question is, as much for my own education
15 as anything, how you value the defined benefit
16 retirement. Because that seems to be one of those key
17 issues between a private-sector and a public-sector
18 position, is the value of that retirement benefit.

19 CHAIR COURSON: Let me do -- okay, that was
20 clearly -- that was a point of discussion that we spent a
21 lot of time on in the Committee talking about and
22 discussing.

23 And, Michael, before I call on you, one of the
24 things that we discussed is, the next cut through this, is
25 do you, as part of the next survey -- because there will

1 be ongoing surveys -- do you roll in and value benefits
2 and try to get some cash equivalent of benefits to factor
3 in along with your cash compensation?

4 This chart -- I'm going to ask Michael to talk
5 about this, because we spent a lot of time on that. And
6 I think that the next time through -- I don't want to
7 speak for the Committee because we have some ongoing
8 roles we'll talk about and we may well recommend to the
9 next group that the survey does include the value of the
10 benefits.

11 But, Michael, do you want to talk about that?
12 Because we spent a lot of time on this point.

13 MR. OCLARAY: Sure, sure.

14 Again, we're looking at page 30. And the first
15 two bars are referred to as "market data." They come from
16 -- the data that comprise those bars come from a database
17 of Watson Wyatt's, which is a total rewards database in
18 which organizations have -- throughout the U.S., have
19 submitted data for not only their compensation, but also
20 for their individuals' benefits: retirement benefits,
21 health and welfare benefits, time off, and so forth.

22 Likewise, we gathered the same information from
23 CalHFA, and valued that using the same methodology in
24 order to compare the typical mix of the elements.

25 I cannot -- I am not a benefits valuation expert.

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1 My expertise is in executive compensation, mainly cash
2 and stock; so I can't answer the specific question on any
3 of the technical areas of valuation under this
4 methodology. But we'll be glad to provide further
5 background.

6 MR. MORRIS: John?

7 CHAIR COURSON: Yes, Mr. Morris?

8 MR. MORRIS: Peter, we did address this in one of
9 the meetings in Burbank. And just for background, this
10 was not part of the survey. It was an issue which some
11 people -- I personally had a problem with it. I mean, I
12 thought that it was a flaw in the survey; that when we --
13 and we discussed this, John, Ed, and I discussed this,
14 that a future survey -- like I said, this is the first
15 year. Pat was hired, Watson & Wyatt were hired prior to
16 the Compensation Committee ever meeting. And so the
17 marching orders of the survey were given prior to any
18 meeting, and it did not include total compensation. It
19 included just cash compensation.

20 So, you know, we're going to discuss things that
21 we might want to do going forward; but clearly, that was
22 an issue that John and Ed and everybody else, even in the
23 public meeting in the notes, it was something that I had
24 an issue with.

25 The reason it wasn't done, quite frankly, was

1 it wasn't instructed in the beginning; and, number two,
2 it was a question of time.

3 For whatever reason, there was a real urgency to
4 get this done by the end of the year, and to go ahead and
5 do that type of survey would have required -- from what
6 I was told in the meeting in Burbank, would have required
7 a great deal more time to do and far more complicated. So
8 that's why it wasn't done.

9 But I think next year, the Compensation
10 Committee should raise that issue.

11 MR. CAREY: Thank you.

12 CHAIR COURSON: Right. And we're -- not to jump
13 ahead, but the task we have today is a specific task, but
14 the Committee itself is ongoing. And I'll describe after
15 we finish this portion of our report and so on, our next
16 jobs. We've got some other jobs to do, and that
17 methodology for another survey is certainly going to be
18 part of that.

19 Other questions?

20 *(No audible response)*

21 CHAIR COURSON: So what you have in front of you
22 is the result of our second meeting in Burbank, where each
23 of the ten positions you see we have recommended a minimum
24 and a maximum, and there are some notes.

25 Clearly -- I will tell you just where we're

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1 headed, I think that we're looking for two pieces, two
2 actions by the Board. One is approval for this year; and
3 obviously we'll say, this is not for perpetuity -- not
4 forever, but approval for this year, of this salary grid.
5 And then the second, after we move through this, whether
6 we change it or approve it or so on, we're going to move
7 into specific recommendations of salaries for specific
8 individuals. So we'll have two different actions today.

9 Are there questions or comments or issues or
10 discussion of the chart in front of you?

11 Mr. Shine?

12 MR. SHINE: Just for clarification, so you're
13 saying today you want to get an approval of the format
14 with these numbers, but not take any action on any
15 specific person or salary?

16 CHAIR COURSON: No. After we approve this -- if
17 we approve this, this was sort of the -- this was the
18 basis on which we then reviewed each of the individuals
19 here. So the next action will be a recommendation of a
20 specific salary for each of the incumbents in one of
21 these ten positions.

22 MR. SHINE: So that's a yes? We're just doing
23 the basic plan --

24 CHAIR COURSON: Correct, correct.

25 MR. SHINE: -- and then the implementation of

1 each --

2 CHAIR COURSON: That's going to be a second vote
3 and a second discussion that we'll have after we finish
4 this.

5 MR. SHINE: And is it the Committee's intention
6 then to go forward with it to the next step, to evaluate
7 the present value of these benefits and all the things
8 that we're discussing?

9 MR. MORRIS: Yes.

10 MR. SHINE: And that would leave this format
11 intact. It might change the numbers? Or no? Or yes?

12 MR. MORRIS: It could.

13 CHAIR COURSON: Yes, it could.

14 You could -- the answer is, I always like to
15 say, I can't make that decision until I have to make it,
16 and I can't make it today.

17 But it seems like you could come up with a
18 couple. I mean, you could do -- Michael, help me. I
19 think that you could still do next year, if you chose,
20 a salary structure that looks like this is based on cash.
21 You could also then supplement that with another one that
22 rolls in and values, if you will, benefits. So you could
23 look at it a couple ways. You could say here's cash and
24 here's benefits; here's value of our benefits versus the
25 others in the model, and so on.

1 I mean, there's a lot of other ways.

2 Michael, I don't know what the methodology would
3 be.

4 MR. OCLARAY: The numbers could change. I would
5 guess they wouldn't change substantially at all to any
6 significant degree. Only because, I mean, it is
7 typically done, meaning, salary ranges are typically
8 developed based on cash compensation data. It's very
9 appropriate for a committee to look at total rewards, pay
10 and benefits, and to keep track of the competitive value
11 of it.

12 But as a starting point for salary management,
13 typically, organizations focus on market data for salary
14 or, at most, total cash compensation which, again, in the
15 market, could include annual incentives or short-term
16 incentives.

17 CHAIR COURSON: Go ahead, Mr. Shine.

18 MR. SHINE: Is the information contained in your
19 report, where you got the PERS and STRS and all those
20 people's levels of pay, was that strictly cash? Nothing
21 to do with any benefits of any kind?

22 MR. OCLARAY: That's correct, yes.

23 I mean we -- now, I believe --

24 MR. SHINE: You have a level playing field,
25 vis-à-vis the definition of the components is very simple,

1 cash --

2 MR. OCLARAY: That's correct.

3 MR. SHINE: -- as opposed to other components
4 from other places to take into consideration?

5 MR. OCLARAY: That's right.

6 CHAIR COURSON: What we don't have is in
7 addition to cash, the relative value of benefits at
8 CalHFA versus other participants in the survey; yes?
9 That's the piece we don't have. We have cash and cash.
10 And that's the piece that Mr. Morris was talking about,
11 we would likely recommend that that's where we're going
12 to try to go.

13 MR. SHINE: So you would try to identify the -- I
14 don't want to use the "perk package," but "benefits,"
15 let's call it that --

16 CHAIR COURSON: Yes.

17 MR. SHINE: -- of this group, of CalHFA,
18 vis-à-vis PERS and STRS and everybody else, to see if
19 there's any --

20 CHAIR COURSON: And other HFAs, or whoever we
21 believe should be the participants in the survey.

22 MR. CAREY: And I would just say that given one
23 of the issues, is the ability to bring talent from the
24 private sector. And therein lies the differential, right?
25 The differential of benefits between here and STRS or

1 CalPERS or whatever is not going to be so great; but the
2 difference between the private sector and here is
3 significant.

4 Unfortunately, it's very complicated with
5 retirement, bringing someone in that's 55 from the private
6 sector, the retirement is worth a lot less than for
7 someone who has been in public service for a long time. I
8 think it's very complicated. But it's hard to, in this
9 day and age, act as though those benefits don't cost.

10 CHAIR COURSON: Ms. Jacobs?

11 MS. JACOBS: First of all, I'd like to
12 compliment the committee and the consultant for doing
13 such a thorough job on such a tight time frame. This is
14 great information.

15 I just have one question: Are there any union
16 contracts that affect any of these job classifications?

17 CHAIR COURSON: No. And when the jobs -- my
18 understanding is when the jobs were specified in the
19 legislation, that was the factor, that there were no
20 union relationships.

21 MS. JACOBS: Thank you.

22 CHAIR COURSON: Ms. Galante?

23 MS. GALANTE: Just on the piece of paper we have
24 before us.

25 CHAIR COURSON: Yes.

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1 MS. GALANTE: So is this saying that in each of
2 these boxes -- for example, where the chief deputy
3 director or the director of Financing, director of
4 Multifamily, they're all in the same range?

5 CHAIR COURSON: Yes, right.

6 And again, those ranges, as we've said, can be
7 revisited.

8 We talked yesterday in our meeting last night in
9 open session, before we went into closed session, about
10 perhaps next year wanting to revisit and rearrange people
11 in different grades. You know, this is the first time.
12 It may be that we'll find that through the year, with the
13 executive director's recommendation and with Watson Wyatt
14 and with the Committee and so on, that we want to next
15 year put people in different grades. I mean, you'd have
16 to take a cut at this thing; and this was our best shot
17 at it this time around.

18 MS. MEEHAN: Mr. Chairman, with regard to your
19 discussion on the total compensation versus inclusion of
20 the benefits, I would point out to the Board that the
21 State of California, the Department of Personnel
22 Administration, when they embarked on doing a salary
23 survey to set the salaries for state government, in
24 general, have the same difficulty. And their report
25 noted the difficulties in obtaining a level playing

1 field, if you will, or an apples-and-apples type of
2 configuration of data that would include benefits.
3 So they are going to be looking into that further, and the
4 Committee and the Board may want to have a discussion with
5 DPA and see how they progress and get some assistance.

6 CHAIR COURSON: Is there a time frame on that,
7 that we know of?

8 MS. MEEHAN: Not that I know of.

9 CHAIR COURSON: Well, certainly any information
10 we could get would certainly be valuable as we go down
11 this path for next year.

12 Are there other questions, comments, discussion
13 on the salary structure?

14 *(No audible response)*

15 CHAIR COURSON: Seeing none, is there a motion
16 to approve?

17 MS. JACOBS: So moved.

18 CHAIR COURSON: Ms. Jacobs?

19 MS. JACOBS: You don't have a written-out motion
20 for this; right?

21 CHAIR COURSON: No, we're sort of --

22 MS. JACOBS: Okay, then I move approval of the
23 submitted Preliminary Salary Structure Chart dated
24 January 9th, 2007, subject to annual review by the
25 Compensation Committee.

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1 CHAIR COURSON: Correct.

2 Thank you.

3 MR. DAVI: Second.

4 CHAIR COURSON: Second.

5 MR. MORRIS: And may I comment?

6 CHAIR COURSON: Yes, Mr. Morris?

7 MR. MORRIS: Okay, I just have a general comment.

8 And I want to explain why I'm going to be voting the way

9 I'm voting.

10 We discussed the legislation quite a while ago.

11 We knew that this legislation was the pipeline. We knew
12 that we were going to have at some point the Compensation
13 Committee to adjust the salaries. Because clearly, from
14 the survey, you could see that our salaries were below
15 market.

16 This whole process started because of the fact
17 we were having problems filling vacant positions because,
18 quite frankly, we weren't competitive.

19 One of the problems that I had with the process
20 was that the Compensation Committee met -- our first
21 meeting was after Pat had been hired, after Watson &
22 Wyatt had been hired, after the universe of organizations
23 used to conduct the survey -- for the survey, and which
24 generated these ranges, had already been given to Watson
25 Wyatt by CalHFA.

1 If we were a public company, we could never get
2 away with this.

3 The next year I may not be around. I don't know
4 who is going to be on the Board next year. But the
5 Compensation Committee must be involved early on. They
6 must be involved in the selection of the consultant.
7 They must be involved in the selection of who -- if we're
8 going to do a survey, who is going to do a survey. If a
9 survey is done, they must be involved in the mission of
10 the survey, what items will be included, what universe
11 we're going to look into.

12 As a result, I've got a real problem with the
13 salary ranges and some of the final recommendations.
14 I totally agree that our salaries are below what they
15 should have been. And I think there should have been
16 adequate adjustments. And I think that the legislation
17 clearly states that the purpose for this was to attract
18 new candidates and to retain good employees. It wasn't
19 designed to give huge windfalls to long-time, existing
20 employees.

21 But clearly, I've been supportive of some
22 adjustments.

23 I'm not supportive of the process, and I just
24 want to be on public record that next year I would urge
25 members on the Committee to get involved early. Nothing

1 should be done until a committee is formed. And clearly,
2 you shouldn't have senior staff giving the universe of
3 the survey without any input at all -- zero input from
4 the Compensation Committee. Because, quite frankly, when
5 I look at the organizations that we used, some I think
6 are good comps, some I think are very poor comps.

7 But you know what? We had no input. We were
8 given this report. Our first meeting was this report.

9 So I'm going to be voting against these.
10 They're going to get approved, the salaries are going to
11 get approved, the adjustments are going to get approved.
12 The reason I'm voting no is, I'm not happy with the
13 process.

14 I think John did a great job given the time that
15 he had to deal with, and he did a great job; but I'm not
16 happy with the process.

17 CHAIR COURSON: I'll make a comment --
18 Mr. Morris and I had these conversations. We frankly had
19 interesting Committee meetings, and I think a lot of give
20 and take and a lot of different viewpoints, and I think
21 that's what this Board is for.

22 I certainly was not involved in great detail;
23 but I will say, as I said to Mr. Morris and Mr. Czucker
24 last night, clearly after Watson Wyatt -- and I'm well
25 aware of Watson Wyatt, and I've worked with them before,

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1 and I think they were an excellent choice through
2 our process of the RFP -- and did meet with
3 representatives of Watson Wyatt and with Ms. Meehan, as
4 they started the process.

5 Now, in terms of picking the people and so on,
6 we knew we had to use HFAs. We identified that. We
7 thought we should use California PERS and STRS and so on.
8 We identified that, and after that process, clearly they
9 went away and clearly did their job. So there was that
10 level of involvement, not to the depth that Mr. Morris
11 would recommend that we have the Committee be involved in
12 the future. And I think that his comments are
13 instructive.

14 But I will say that despite all that, I am
15 satisfied as chair of the Compensation Committee, that
16 the data, the work that Watson Wyatt did, the data that
17 we have, the supplemental data that we got, frankly the
18 specifics of the five others, were very helpful. And I
19 am satisfied with the fiduciary responsibility as
20 chairman of the committee and chairman of this Board with
21 what we bring to you today for your consideration. And I
22 would not bring it forward if I wasn't comfortable with
23 that.

24 Are there other comments? We have a motion and
25 a second.

1 Mr. Czucker?

2 MR. CZUKER: The presentation before you with
3 the schedules establishes the Compensation Committee and
4 suggests the preliminary salary structure.

5 I would think that since this is going to be the
6 first year that this salary structure is put in place,
7 that the headings should be changed from "Preliminary
8 Salary Structure" to "Year 1 Salary Structure," since
9 this is going to be the framework and the basis to move
10 forward, at least for the first year.

11 And so rather than referencing it as
12 "preliminary," I'd rather reference it as the "Year 1
13 Salary Structure" or "CalHFA Salary Structure for
14 Calendar Year 2007," which would more accurately reflect
15 what its intended use is.

16 CHAIR COURSON: Yes, I think that -- and if I'm
17 correct with Ms. Jacobs' motion, it was clear that this
18 was subject to annual review, which is appropriate. So
19 however we want to head the document, I'm certainly open,
20 if there's a better way to do that.

21 MR. CZUKER: It's the word "preliminary" that
22 I'm referring to.

23 MS. JACOBS: Well, I'm referencing the document
24 as we have the document.

25 I mean, I'm happy to amend my motion if it's

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1 okay with the seconder, to be appropriate. That's why
2 I appreciate when we have the motions drawn up for us
3 ahead of time, so I can't make any mistakes.

4 CHAIR COURSON: I would say you could say it was
5 the CalHFA's annual salary structure, as established on
6 1/9/07.

7 And then Ms. Jacobs's motion says it is subject
8 to annual review, and that might get you there. It takes
9 the word "preliminary" out.

10 MR. CZUKER: I'm satisfied.

11 MR. SHINE: I think the way you have done it is
12 great, because that's exactly what it is. You have
13 several other issues -- other issues to deal with that
14 may impact this; and you may not want to wait a year to
15 do it. I don't know.

16 CHAIR COURSON: Well, I'll leave it up to the
17 Board. I'm not a wordsmith.

18 It seems to me that -- I think Mr. Czucker raises
19 an appropriate point.

20 Once we approve this, this is not preliminary.
21 It is the basis for some other decision, recommendations
22 are coming forth; but it is also just that. And it is
23 subject to annual review and change by the Committee.

24 MS. JACOBS: Okay, if I could withdraw my motion
25 with the acceptance of the seconder, and try again.

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1 I move approval of using for basis of 2007
2 salaries the information provided for us on the handout
3 entitled "CalHFA's Preliminary Salary Structure,"
4 established by the Compensation Committee on 1/9/2007,
5 and have it subject to annual review by the Compensation
6 Committee.

7 CHAIR COURSON: Is there a second?

8 MR. DAVI: Second.

9 CHAIR COURSON: Mr. Davi.

10 All right, now, is there any further discussion?

11 Yes, Mr. Pavao?

12 MR. PAVAO: I suppose I just have one final
13 question before casting a vote.

14 But I guess, Mr. Morris, I'd like to make sure I
15 understand your position.

16 You persuasively state that going forward
17 there's lots of room for process improvements as we go
18 forward, and that's certainly understandable. But is it
19 your position that, from your perspective, this process
20 was of such a nature that you don't feel confident we've
21 captured the right ranges here?

22 MR. MORRIS: I think in some cases, we've got
23 the right ranges. I think in some cases, we don't. I'm
24 going to be voting no purely on process.

25 MR. PAVAO: Okay. Thanks.

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1 CHAIR COURSON: Mr. Davi?

2 MR. DAVI: I just have a clarification to what
3 Mr. Morris brought up -- can you all hear me okay?

4 CHAIR COURSON: Yes.

5 MR. DAVI: I want to make sure, the way I
6 understand this, this is coming from the Compensation
7 Committee.

8 CHAIR COURSON: It's a recommendation to the
9 Board from the Compensation Committee.

10 MR. DAVI: Okay, so there must have been the
11 majority of the Compensation Committee approve this; and,
12 therefore, recommend it.

13 CHAIR COURSON: That is accurate. That is
14 accurate.

15 MR. DAVI: Okay. And the reason that I am moving
16 forward in supporting this motion and seconded it is
17 because I look at the -- this is new ground here for this
18 agency, obviously, as a result of legislation; but I'm
19 looking at the minimum ranges here as a base -- and
20 I understand it's a base. And I'm looking at that as the
21 minimum. And I don't look at that as a substantial
22 windfall to existing -- and there's no commitment to
23 existing employees or to people that are there.

24 And I expect the next step that you talked
25 about, Mr. Chairman, is going to be identifying the

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1 correct dollar amount to the positions of the
2 individuals, whether they're existing or they're new for
3 their compensation.

4 CHAIR COURSON: Correct.

5 MR. DAVI: I want to make sure that's --

6 CHAIR COURSON: That is correct. That's why
7 we're doing this in two pieces.

8 MR. DAVI: Okay.

9 CHAIR COURSON: We get the salary grades
10 approved for this year, and then we have to go back and
11 look at the individual.

12 MR. DAVI: Okay, thank you.

13 CHAIR COURSON: Any other discussion, comments?

14 *(No audible response)*

15 CHAIR COURSON: Any comment from the public?

16 *(No audible response)*

17 CHAIR COURSON: Seeing none, let's call the
18 roll.

19 MS. OJIMA: Thank you.

20 Mr. Pavao?

21 MR. PAVAO: Yes.

22 MS. OJIMA: Mr. Carey?

23 MR. CAREY: Yes.

24 MS. OJIMA: Mr. Czucker?

25 MR. CZUKER: Yes.

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1 MS. OJIMA: Ms. Galante?
2 MS. GALANTE: Yes.
3 MS. OJIMA: Ms. Jacobs?
4 MS. JACOBS: Yes.
5 MS. OJIMA: Mr. Morris?
6 MR. MORRIS: No.
7 MS. OJIMA: Mr. Davi?
8 MR. DAVI: Yes.
9 MS. OJIMA: Mr. Shine?
10 MR. SHINE: Yes.
11 MS. OJIMA: Mr. Courson?
12 CHAIR COURSON: Yes.
13 MS. OJIMA: Is there a resolution number?
14 CHAIR COURSON: There is no resolution number.
15 The wording for the motion will be in the minutes.
16 MS. OJIMA: Thank you.
17 CHAIR COURSON: Okay, now, we're going to move
18 to Phase Two. And I will ask JoJo to distribute those.
19 And there are extras from the company.
20 MS. OJIMA: Thank you.
21 MR. DAVI: Could I ask a question of the chair?
22 CHAIR COURSON: Sure. Yes, Mr. Davi?
23 MR. DAVI: At what point do our discussions --
24 maybe this is a legal question -- our discussions of
25 personnel become closed session? Or is there a moment

1 where we can do this among ourselves? Or is there none
2 of that happening?

3 CHAIR COURSON: I will take a crack at it and
4 let counsel help me.

5 MR. DAVI: Okay.

6 CHAIR COURSON: The way -- and I will tell you
7 how we proceeded in the Committee last night, and I trust
8 that the rules that we operated under the Committee last
9 night are the same rules as we operate under the Board
10 here in terms of the public meetings.

11 MR. DAVI: Okay.

12 CHAIR COURSON: Based on a memo that was
13 issued -- and I believe you all have this, actually --
14 there is a memo dated January 12th from our deputy counsel
15 to the Board that talks about this open meeting. And I
16 refer to those that talk about on page 2, in the first --
17 the second line, it says, "However, performance
18 evaluations are viewed as the personnel exception to the
19 Open Meetings Law. Specifically, Government Code section
20 11126(a)(1) permits closed sessions to be held during a
21 regular meeting to consider evaluation of performance of
22 employees. In addition, case law allows for closed
23 sessions for the purposes of determining whether an
24 individual warrants salary adjustment. Actual
25 determination of salaries must be considered in a

1 properly noticed meeting."

2 What we did, therefore, last night was we had an
3 open session, which we talked about some matters and more
4 surveys, we talked about maybe adjusting salary grades in
5 future years and so on; and then we went into the closed
6 session, with the Committee and with the executive
7 director in the closed session; and what we did was we
8 looked at -- talked about performance evaluations that had
9 been done by the executive director, and talked about
10 specific salary adjustments for each of those individuals.

11 And once we came up with the recommendations you see and
12 once we finished that task, we went back into open
13 session.

14 We're here now in open session, going to give
15 the Committee's recommendation. You have what you have
16 in front of you that came out of our meeting yesterday.

17 It would be my understanding that we can have,
18 in a public session, properly, a discussion of the report
19 of the Committee. It would also be my understanding,
20 however, that if, in fact, the Board wants to discuss a
21 performance evaluation or a specific salary adjustment
22 for an individual, we would go into closed session.

23 MS. CASEY-HEROLD: You don't necessarily have to
24 go into closed session.

25 CHAIR COURSON: We can go into closed session,

1 if we choose.

2 MS. CASEY-HEROLD: Right.

3 CHAIR COURSON: So there can be a broad
4 discussion: Here's the report, and so on.

5 If any member of the Board chooses or wants to
6 go into closed session to talk about the salary
7 adjustment of any -- a specific salary adjustment of any
8 individual or individuals, we can go into closed session.

9 What you have is, obviously, the proposed salary
10 ranges are the same --

11 MR. DAVI: But it seems -- I'm sorry.

12 CHAIR COURSON: I'm sorry, Mr. Davi, sure.
13 Please.

14 MR. DAVI: I'm just reacting.

15 CHAIR COURSON: No, please.

16 MR. DAVI: Given that -- thank you -- it seems
17 to me that for us to go forward in terms of process, I'd
18 like to suggest that we mimic the process you did last
19 evening, so that we have the benefit of the evaluation,
20 and at least have that information. Unless the rest of
21 the Board feels they don't need that. But for me, I'd
22 like to proceed and get the report and go into closed
23 session and hear if we're going to do those steps.

24 CHAIR COURSON: Well, if you're asking that we
25 discuss each individual salary adjustment --

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1 MR. DAVI: Correct.

2 CHAIR COURSON: -- which is what we did last
3 night, and if you want to have that discussion, as
4 counsel said, we can do that in closed session, if you're
5 talking about specific individuals.

6 MR. DAVI: I'm just saying, if we do have that
7 discussion, I'd like it to be in closed session.

8 MS. CASEY-HEROLD: The closed session would be
9 for the purposes of looking at the evaluations. But the
10 actual salary setting needs to be done in an open
11 session.

12 CHAIR COURSON: Well, at some point we're going
13 to be in general session, and we're going to have salary
14 recommendations, and we're going to set those salaries in
15 a public setting by having -- there will be --
16 ultimately, we're going to move towards a motion that's
17 going to approve specific salaries for these specific
18 individuals that are considered. That's going to be
19 public. We have it now, we have our recommendation.

20 That's the way we proceeded last night.

21 Mr. Morris?

22 MR. MORRIS: What I would suggest is that you do
23 that, John. You go ahead, make your presentation, and
24 then I would like to go into closed.

25 MR. DAVI: We're saying the same thing.

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1 MR. MORRIS: And I've done this, believe me. I
2 mean I've been through this a lot. I've served on other
3 state board commissions, I know how it works.

4 So why don't we make the presentation; then if
5 there are going to be specific comments that we want to
6 make regarding specific positions, then we go into
7 closed?

8 MR. DAVI: I concur.

9 MR. MORRIS: Okay?

10 CHAIR COURSON: In the presentation that you
11 have -- I mean, if you look, you see that what we have
12 done is taken each item in the groupings that we have,
13 current salary, this is the minimum, midpoint, and
14 maximum, same ones on the salary grade we just approved,
15 and you'll see on the right a salary alignment.

16 Let me make a comment of another thing that
17 we -- something else that we talked about. And I think
18 that's important. We talked with Watson Wyatt about,
19 obviously, looking at what market was and, in particular,
20 market, given attracting individuals -- recruiting
21 individuals to fill open spots or if, in fact, a spot
22 became open, what would you have to -- what would be the
23 proper compensation that you could use to recruit, which
24 is really where we started all this well over a year ago.
25 We had four open positions, and trying to figure out how

1 can we recruit into those jobs. And so we talked about
2 that and said that, in some respects, obviously, for the
3 open positions, we are getting a sense what the market is
4 because we're recruiting those people, and we know what
5 compensation it takes to attract people competent to fill
6 those jobs, and said sometimes you have to phase these
7 things in.

8 And we talked last night in our open session
9 about the potential of a two-year plan, and coming to
10 you with a plan that said, "Here's Year 1 and here's
11 Year 2." And the committee made a decision that we did
12 not want to move that way; that we would deal with year
13 one. And there will be another compensation committee,
14 there will be another survey, and we will probably use
15 benefits and so on, and to let next year's compensation
16 committee to address, given the facts we've gotten now,
17 or the new facts they have, where they want to move
18 adjustments or where they want to move salaries for next
19 year.

20 So we're coming forth to you as a committee with
21 only a proposal for year one, knowing that the
22 Compensation Committee next year will have to deal with
23 the facts as we have them now, or any new facts they
24 have, or how they want to deal with that with any phase
25 or second-step or adjustments off of these for the next

1 year.

2 So we've made a decision just to come back and
3 deal with the one year this year.

4 That really is -- I mean, without running my
5 finger down and talking about specific people, you see
6 the recommendations. I will say that in most cases, they
7 are either at or slightly above or slightly below the
8 midpoint, which resulted from our discussions last night.

9 We did go person by person and review
10 personnel -- personnel evaluations were done by Terri.
11 And everyone on this position, of the eight positions --
12 eight of these positions are filled.

13 Let me remind you, the director of Multifamily
14 and the director of Homeownership are open positions.
15 All the other positions are filled, in that -- and I
16 don't even think we mentioned, Terri, that our chief
17 deputy director and our director of Mortgage Insurance
18 are confirmed. Their appointments are in place, and they
19 were before the end of the year; so those jobs are
20 filled.

21 And what we did is give everyone -- all the
22 eight individuals in these positions the opportunity to
23 provide any additional information to the Compensation
24 Committee they want. And many of them did, gave us
25 additional information, additional statements, additional

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1 accomplishments they wanted us to consider, in addition
2 to Terri's evaluation. And as we went through these one
3 by one, we looked at each those individual evaluations.

4 And then person by person, if you go position
5 by position, we went through and established the
6 compensation you see. And the recommendation of the
7 Committee that's being brought to you today are those
8 salaries that are in that column called, "New Salary
9 Realignment."

10 Ms. Galante?

11 MS. GALANTE: I had three questions, but you
12 answered one, which is what the open positions were.

13 The second question I had is -- and you might
14 have addressed this, but I maybe got confused -- the
15 terminology, "New Salary Realignment," for positions that
16 are not open -- for positions that are open, there is a
17 minimum and a maximum range, and then there's a salary
18 realignment number. And so I'm confused by that. I
19 mean, you could hire someone closer to the minimum based
20 on their experience; or are we saying we would recruit at
21 the new salary alignment number?

22 CHAIR COURSON: That's a very good question, and
23 I should have mentioned that because we talked about that
24 last night.

25 Clearly, we are now in the process, and the

1 executive director is in the process of interviewing
2 people for Multifamily and Homeownership.

3 Let me remind the Board, the Multifamily
4 position is a position that is hired by the Board.
5 That is by statute. The Homeownership position is not.

6 Having said that, however, I think what we
7 talked about with Terri last night was trying to give
8 her -- we have a pretty good sense of the people we've
9 interviewed and trying to fill these jobs over the last
10 year, what the market might be, a range of the market
11 might be for those positions.

12 And I think what we're giving to Terri was, she
13 was looking for some guidelines. And basically if you
14 look at this, we're saying that we think that we should be
15 able to hire, and we hope that Terri, as sort of her
16 guideline to go out there, to try to hire those two
17 positions, is someplace around the midpoint. And that
18 someplace around the midpoint is one hundred eighty. It
19 doesn't have to be, but we think that that's a target.
20 And I think based on what we've heard in the marketplace,
21 we think that a capable candidate can be hired in that
22 range.

23 MS. GALANTE: Okay, so for the director of
24 Multifamily, which is, you're saying, a Board appointment
25 as opposed to, say, director of Homeownership, which

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1 really goes to my third question. The Board and the
2 Compensation Committee have been charged with
3 establishing these salary ranges on an annual basis. But
4 on a filling of an actual position, everything on this
5 chart, except for the director of Multifamily, is in the
6 executive director's purview.

7 CHAIR COURSON: No, no, she recommends and the
8 Board approves.

9 MS. GALANTE: For all of these?

10 CHAIR COURSON: Yes.

11 MS. GALANTE: Okay, thank you. That was my
12 third question.

13 CHAIR COURSON: Yes. That's in our charter, and
14 that's the way we have it set up.

15 MS. GALANTE: Okay.

16 CHAIR COURSON: So she'll make a recommendation.
17 But she needs to know sort of a general range of the
18 target she's shooting at when she goes and does this
19 recruiting.

20 MS. GALANTE: Got it. That's very helpful.

21 CHAIR COURSON: Any other questions?

22 *(No audible response)*

23 CHAIR COURSON: Seeing none, I think that we
24 have a request from two members of the Board that we go
25 into closed session to talk about individuals with

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1 specific salary adjustments.

2 MS. CASEY-HEROLD: Specific evaluations, not
3 specific salaries.

4 CHAIR COURSON: Well, according to the memo,
5 case law allows for closed sessions for the purposes of
6 determining whether an individual warrants a salary
7 adjustment.

8 MS. CASEY-HEROLD: Right, but not establishing
9 the specific dollar amount.

10 CHAIR COURSON: Okay.

11 MS. CASEY-HEROLD: It's a fine line to walk.

12 MR. SHINE: The difference between establishing
13 and discussing it.

14 MS. GALANTE: Yes, you can go back into open
15 session and set the amount.

16 MS. CASEY-HEROLD: That's -- yes.

17 CHAIR COURSON: Correct. Okay.

18 All right, we are now going to go into closed
19 session.

20 *(A recess was taken from 11:24 a.m.*
21 *to 11:36 a.m.)*

22 CHAIR COURSON: I'm going to call the Board
23 meeting back to order after a recess. And in discussions
24 with the Board and with counsel, the request that we have
25 a closed session is not possible, since a closed session

1 was not noticed on the agenda for this meeting.

2 So I do believe, and based upon the Board's
3 discussion, that it's clear that the directors want to
4 have an opportunity in a closed session to discuss
5 performance evaluations and performance and adjustments.

6 MS. JACOBS: Mr. Chairman, if I could make a
7 comment.

8 CHAIR COURSON: Yes.

9 MS. JACOBS: I'm sorry to interrupt you.

10 CHAIR COURSON: Yes, please.

11 MS. JACOBS: Perhaps if you explained how you
12 arrived at these recommendations. In other words, what
13 I'm not aware of is if the executive director has
14 submitted to you performance evaluations and whether or
15 not they've been reviewed by the Compensation Committee
16 and they're making a recommendation.

17 CHAIR COURSON: Okay, that's fair.

18 The process that we had: Prior to last night's
19 meeting, the executive director furnished to us her
20 performance evaluations of the eight incumbents whose
21 salaries we are now considering. We had those prior to
22 our meeting last night. She then gave each of the eight
23 individuals an opportunity to provide additional
24 information for consideration by the Compensation
25 Committee.

1 A number of those individuals did that. They
2 gave us additional performance information, résumés,
3 et cetera, talking about their performance and their --
4 anything else that they wanted to share.

5 In addition to that, the executive director,
6 in accordance with the charter, came with a salary
7 recommendation, specific salary recommendation for each
8 of the eight incumbent positions.

9 And so what we did is we went position by
10 position, we talked about the position, the individual.
11 We looked at the evaluation -- performance evaluation
12 being given by Terri. We looked at the supplemental
13 information, and then we looked at the salary
14 recommendation given by the executive director. And from
15 that, then the Committee made a decision -- or prepared a
16 recommendation for each job for the salary for that
17 position. And those are included in the report that you
18 see today.

19 MS. JACOBS: Okay, knowing that, which I did not
20 know when we were having our previous discussion, I am
21 personally not in need of a closed session here, since
22 the Compensation Committee has had a chance to review the
23 performance reviews, and that's their charge. However,
24 whatever the majority of the Board wants to do, I'm
25 totally fine with that.

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1 CHAIR COURSON: Let me -- and I appreciate that,
2 Ms. Jacobs.

3 Let me say, here are our choices: We certainly
4 can notice a meeting. It's my understanding it takes at
5 least a ten-day notice. We can do it in person. I
6 believe I'm correct in past discussions about doing this,
7 that we can do it by conference call, as long as we're in
8 a location where a director is going to be on the
9 conference call, there is access that the public can be
10 in that location and listen and participate. So if we do
11 that, the notice, we could start with an open session, we
12 move to closed. Those people, if they showed -- if they
13 arrived at the location where the director is and we went
14 into closed session, they would be asked to leave that
15 room where we are, and then at the end, could come back
16 in for the remainder of the meeting, which will be open.

17 So we could establish locations in the
18 Los Angeles area, in Sacramento, Fresno, Bay Area --
19 I mean, we can establish places where, if we can find
20 locations, where we can set up a conference call, and
21 there are facilities for the public to go and listen to
22 that call and have a closed session, and do that not
23 sooner than ten days from now. We'd have to come up with
24 an appropriate date. So I leave that up to the Board.

25 We're certainly capable of doing that. We're

1 certainly willing to schedule that, if the Board so
2 desires. We just have to find an appropriate date and
3 the locations to work out the logistics.

4 Mr. Davi?

5 MR. DAVI: That could be fine with me. I just
6 need to understand some things.

7 I'm hearing from legal counsel, in closed session
8 we can only discuss evaluations. If that's the case, I
9 can rely on the Compensation Committee's analysis of the
10 evaluations; and we can move forward today.

11 MS. CASEY-HEROLD: Yes.

12 MR. DAVI: There's no discussion of other
13 issues?

14 MS. CASEY-HEROLD: *(Nodding head.)*

15 MR. DAVI: Then I don't know that we're going
16 to accomplish much more than simply receiving the
17 evaluations. I trust the three of you have seen and
18 don't find any pejorative information contained therein.

19 CHAIR COURSON: Mr. Morris?

20 MR. MORRIS: I should note that if there are
21 Board members that want to go into closed, we must honor
22 that request, number one.

23 Number two, there were three people on the
24 Committee last night. We did not have agreement by the
25 three of us as it relates to a number of these positions.

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1 CHAIR COURSON: The recommendation is coming to
2 You. Two approved the recommendation, and one didn't.

3 So I think -- and, Counsel, you can help me -- if
4 any Board member wants a closed session, then we would
5 schedule a meeting.

6 MS. CASEY-HEROLD: I think that's true, yes.

7 CHAIR COURSON: I really leave it up to the
8 Board. I'm not asking for anything.

9 Mr. Pavao?

10 MR. PAVAO: Without giving too much away, was
11 the source of the disagreement among you based on
12 information that we can't discuss openly? Or the
13 disagreement was based on information you feel we should
14 probably cover in closed session?

15 MR. MORRIS: No, I can cover it in open.

16 MR. PAVAO: And since I have the floor, I would
17 be curious just to hear a bit more, since there is a bit
18 of deviation from the midpoint, for example, just what was
19 some of the thinking that went into the deviations from
20 the midpoint; and how did you consider the
21 percent -- you've displayed the percentage increase over
22 current salary. How did that factor into your
23 decision-making? I'd be curious to hear more about those.

24 CHAIR COURSON: Okay, and I think at that point,
25 since they were recommendations of the executive director,

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1 I would ask her to talk about those also. But let's deal
2 with the other first.

3 MR. PAVAO: Okay.

4 Mr. Morris, do you want to --

5 MR. MORRIS: I think it gets back to what I
6 discussed earlier, where we were discussing the survey.
7 I had a real problem with the process. Because you've
8 got to remember, the process drives everything, okay.
9 It drives the salary ranges, it drives the final
10 recommendations, it drives the implementation. And there
11 were a lot of discussions on how many years it would take
12 to phase in these recommendations. Once again, this is
13 year one.

14 This does not reflect what we received last
15 night. Okay, the Board will have a chance next year to
16 reevaluate some of these positions. Some of these
17 numbers were different. Okay, we made changes last
18 night. And we went to what John had mentioned earlier
19 was, we're not phasing it in. This is a one-time
20 increase. And it's up to the Board -- it's up to the
21 Board to make decisions as it relates to future
22 increases.

23 The reason that I voted against the salary
24 ranges, the reasons I'm voting against all these
25 positions is not because I don't think that the ten

1 exempt positions, current positions -- eight current
2 positions and two open positions -- deserve increases.
3 I have a real problem with the process. I think the
4 numbers that were generated were flawed because -- that's
5 my own personal opinion. Others may disagree -- and go
6 right ahead and disagree.

7 I can't support it, and I'll say it publicly. I
8 think that some of the increases were fair and
9 reasonable. Some, I think, were grossly in excess of what
10 I think is reasonable to attract and to retain employees.

11 So I'm going to vote against it. I'm going to say it in
12 public. I don't need to go into private to discuss any
13 individual. You all know my feelings. I think I've made
14 it pretty clear.

15 CHAIR COURSON: Other questions or comments?

16 If there's not, Mr. Pavao had a question. And
17 maybe the executive director brought the recommendations
18 forth, and so I think she would be the one most qualified
19 to speak to deviations.

20 MS. PARKER: Mr. Chairman and Members, the chart
21 that you have before you reflects several sections. And
22 what I tried to do is essentially for the workability of
23 the -- and your consideration -- give you as much
24 information as possible that I want you to sort of look
25 at.

1 I put down the first section as the current
2 salary. And for the purposes of the director of Mortgage
3 Insurance and the chief deputy director, these are the
4 positions that I offered these two individuals through
5 contract last year. So we didn't go back to what was the
6 original state salary. This is really the starting
7 point.

8 The salary -- the proposed salary range, the
9 next three columns, is the document that the Compensation
10 Committee recommended in its meeting that you -- in your
11 previous vote, voted on.

12 I essentially then took this salary range, and
13 went back and looked at it for each of the individuals
14 who currently work for me.

15 I do performance evaluations of all of the
16 managers every year. Their performance evaluation is
17 tied to their business plan, and their performance goals
18 and expectations in the business plan, and an activity
19 plan tied in, which is -- there are reviews of those
20 throughout the year and discussions about their
21 performance.

22 When I made my recommendations last night to the
23 Compensation Committee, I essentially made them based on
24 the salary range as it was, which was mostly a reflection
25 of either existing state agencies that have the same

1 benefit structure as CalHFA does, or HFAs throughout the
2 country that are somewhat similarly situated as CalHFA
3 is, in assets and employees.

4 And I think if you'll note in the Watson Wyatt
5 study, the ones that were selected, while all of them
6 have asset bases less than CalHFA, they run multiple
7 programs and are somewhat similar to what we essentially
8 do.

9 The report also does take into consideration
10 geographical cost-of-living differentials.

11 So since the Committee had essentially adopted
12 this proposed salary range, I went back and used it to
13 essentially say, "What is fair compensation for the
14 existing employees?," and also asked the Compensation
15 Committee last night, "What is it that you are
16 instructing me to do in working with the recruiter for
17 the two vacant positions?" So I have some sense of a
18 range, so I've been talking all along with recruiters
19 about ranges.

20 So it is as John articulated, that the salary in
21 the category for realignment for the Multifamily and
22 Homeownership, is a salary that, at the moment, I had
23 given to the recruiter as the top of a range. And it's
24 my intention to hopefully come in around that number with
25 a qualified candidate, a qualified candidate of the same

1 caliber of the two individuals that I've recruited within
2 the last year, Mr. Spears and Mr. McManus.

3 Then it was a matter of going back and looking
4 at each of the individual positions and their
5 performance. And I have to say that there isn't a one
6 of my senior managers that hasn't been fully
7 performing -- a number of them have been there a number of
8 years, some of them have been there as few as two years --
9 and looked at comparisons to some of the positions that
10 are more akin to positions in state government. And I
11 think that would be, I would just articulate that's the
12 chief information officer and director of legislation,
13 look at how they are similarly situated with their
14 colleagues in state government.

15 I would note in the information officer position
16 that this is a person, a candidate who previously had
17 come from a state agency where just this most recent
18 year, there had been an increase above general salary
19 increases for the IT area. And my recommendations in
20 this particular sense really keep this person where this
21 person would have been, had they stayed in the
22 information technology field.

23 So these recommendations are really, I think,
24 very much in line with colleagues that somewhat function
25 the same that they do in other parts of state government.

1 The rest of the positions, I make
2 recommendations based on the uniqueness of them, and that
3 they really operate more in a business fashion, and that
4 their performance dictates our business. People don't
5 come to us -- if we don't have people who can create
6 products for business, we won't do business.

7 Starting at the bottom, the risk manager is a
8 very unique position. We have somebody who comes from
9 Wall Street to do this work. My argument for giving this
10 person above the midpoint is really trying to look at
11 where he should fit within the range. This is a position,
12 if we were not able to have this individual,
13 we would be doing what we have done in the past, and that
14 is hiring a consultant. And the consultant costs for the
15 work that this person does exceeds -- well exceeds what
16 the salary recommendation is. And we have the additional
17 benefit of having this person in-house to do all kinds of
18 extra work for us. He is a very qualified candidate. And
19 it's clear to me if we were not able to retain him, given
20 the amount of time it took for us to recruit him, we would
21 be going back to having to have work done for our rating
22 agencies analysis through a contract.

23 The director of Mortgage Insurance and chief
24 deputy director -- I will group them -- their salaries
25 are really within their range, reflect that they came in

1 at a salary that was with the understanding that this
2 legislation will be passed and we would look at their
3 salaries with respect to comparable positions in other
4 housing finance agencies. They are fairly new in their
5 positions. And so from that standpoint, I have really
6 mostly recommended at mid or below mid, just from the
7 standpoint of creating additional growth, and them fully
8 performing at a mid to max level.

9 Certainly Mortgage Insurance that's specifically
10 called for in statute to have somebody of a highly
11 qualified nature are incumbent, meets those goals. And
12 if I were to have to recruit again, you know, we would be
13 having probably to go back and have a discussion about the
14 numbers that were in the salary survey.

15 I also, from my standpoint, kind of grouped the
16 general counsel and the director of Financing. They,
17 along with the chief deputy director, are in every
18 meeting that I am in. They are involved in the work that
19 encompasses the entire Agency. The director of Financing
20 is -- as you all are aware, is the person who is
21 responsible for creating the financing schemes that
22 have -- and fiduciary quality of it that is regarded, he
23 has a national reputation in that sense, is often called
24 on to serve in national forums.

25 We were very lucky to be able to recruit him

1 through a national search, although he was our
2 comptroller.

3 There have been instances where people like this
4 have been hired by the private sector. I know somebody
5 in the Treasurer's office lost someone just like this.
6 And so these salaries are really trying to reflect fair
7 compensation for them relative to their peers, and to
8 essentially retain them.

9 The general counsel is someone who has been
10 involved in some very key things this year. Without his
11 assistance, I would be very concerned about our ability
12 to maintain, for example, the HC Law case. This is our
13 \$13 million judgment. Tom did the majority of this work.
14 It continues to go on. We need to go to the criminal
15 stage. He has worked on the MBS, he's worked with
16 Fannie Mae, he's worked on the Bay Area Housing Plan --
17 all of these things, to essentially protect the Agency
18 from, you know, contentious people who want to challenge
19 our tax laws at all times.

20 I have reviewed each and every one of these
21 people.

22 My pitch to you from the standpoint of looking
23 at this with respect to new retention versus going out
24 and recruiting is, I've had to go out and recruit four
25 people in the last year. I believe what I have asked for

1 is fair compensation for them and what they do.

2 I would not want to be in a situation because
3 they felt that there wasn't some recognition of what they
4 do, relative to their peers, it wasn't fair, that I'm in
5 a situation of having to come back and ask you for
6 salaries that would certainly be in this range, if not
7 more, or through contracts that would be greater.

8 And with that, Mr. Chairman, that is the basis
9 of my recommendations.

10 CHAIR COURSON: Are there other questions?

11 Mr. Davi?

12 MR. DAVI: Are these proposed for calendar year
13 '07?

14 CHAIR COURSON: Yes, the proposal is that they
15 be retroactive to January 1st of '07.

16 MR. DAVI: Based on legal counsel's advice and
17 what we're being told and what we've heard of the
18 Compensation Committee's recommendation, I just want the
19 Board to know, since I kind of opened this Pandora's box,
20 that I would be okay to move forward with what you see
21 before you for the calendar year '07, and I'd be
22 supportive of a motion in that direction without having
23 to go to closed sessions.

24 CHAIR COURSON: Is there any request from any of
25 the directors specifically that we notice and schedule a

1 closed session?

2 *(No audible response)*

3 CHAIR COURSON: All right, well, seeing none
4 then, I don't know if that was a motion, Mr. Davi, but it
5 was pretty close to one.

6 Is there a motion?

7 I think the motion is to approve the
8 Compensation Committee recommendations as they are set
9 forth on this document for the calendar year 2007.

10 MS. CASEY-HEROLD: Yes.

11 CHAIR COURSON: That would be the motion.

12 MS. JACOBS: So moved.

13 CHAIR COURSON: Is there a second?

14 MS. GALANTE: Second.

15 CHAIR COURSON: Is there further discussion from
16 the Board?

17 *(No audible response)*

18 CHAIR COURSON: Is there any discussion from the
19 public?

20 *(No audible response)*

21 CHAIR COURSON: Call the roll.

22 MS. OJIMA: Mr. Pavao?

23 MR. PAVAO: Yes.

24 MS. OJIMA: Mr. Carey?

25 MR. CAREY: Yes.

1 MS. OJIMA: Mr. Czucker?

2 MR. CZUKER: Yes.

3 MS. OJIMA: Ms. Galante?

4 MS. GALANTE: Yes.

5 MS. OJIMA: Ms. Jacobs?

6 MS. JACOBS: Yes.

7 MS. OJIMA: Mr. Morris?

8 MR. MORRIS: No.

9 MS. OJIMA: Mr. Davi?

10 MR. DAVI: Yes.

11 MS. OJIMA: Mr. Shine?

12 MR. SHINE: Yes.

13 MS. OJIMA: Mr. Courson?

14 CHAIR COURSON: Yes.

15 MS. OJIMA: It has been approved.

16 CHAIR COURSON: Thank you.

17 A very, I would say, ground-breaking process
18 that certainly needs work, it needs refinement. We need
19 other work to do.

20 There are two follow-up jobs. One is that the
21 Committee has agreed that we are going to continue to
22 meet, and we're going to work on a set of policies and
23 procedures for the Compensation Committee.

24 Going back to some of the comments Mr. Morris
25 said, we think it's important; and we know other

1 organizations have such policies and procedures, which
2 really sets down the specifications for future surveys,
3 methodology for future surveys, the process, revisiting
4 the Committee's charter, and just how sort of laying out
5 a road map for all of those based on the experience that
6 we have this year to move forward for next year.

7 So it would be my plan that we would bring forth
8 that policy and procedure, and give ourselves some
9 time -- we've spent a lot of time on this. But hopefully
10 by at least the July meeting, because the Committee is
11 going to have to get going again in September or October.
12 So by the July meeting, it would be a good target for us
13 to have worked through some drafts and submit them for
14 your comments, and see if we can't put in place some
15 policies and procedures that address some of the comments
16 that came up not only at the Committee, but here at the
17 Board meeting. So that's our next task.

18 Okay, Mr. Carey?

19 MR. CAREY: Mr. Chair, I'd just like -- once in
20 a while it's worth recognizing those moments. We set out
21 a year ago or some time ago to achieve something, and we
22 really have achieved it. Although there are perhaps some
23 refinements needed in the process, we've achieved
24 something that we set out to do, but I'm not sure we were
25 sure we would be successful at. And I appreciate your

1 willingness to see that process through, and I appreciate
2 the director's dogged pursuit of this result, because I
3 think it will serve CalHFA and our constituents well.

4 CHAIR COURSON: And I will make a comment, too,
5 Mr. Czuker and Mr. Morris and I have worked together, not
6 only on the Board but certainly closely on this Committee.

7 And in some respects, I know in all of our conversations
8 we're spirited and everybody had their point of view; and
9 I have to say, I think that's healthy in this process.

10 I feel that we certainly have a fiduciary
11 responsibility to the public, and I think it's healthy
12 to have different points of opinion. Mr. Morris has
13 expressed those. And I think we can take some of those
14 concerns, and it will give us a better process as we
15 continue to refine this going forward.

16 And I appreciate, John, your candidness, and
17 wanting to put forth. And I think Ed and I and you have
18 worked well together, and we'll take those and I think
19 that's a positive input to move forward from here.

20 --o0o--

21 **Item 8. Resolution 07-03**

22 **Discussion, recommendation, and possible action**
23 **re adoption of a resolution authorizing the**
24 **Agency's single-family bond indentures, the**
25 **issuance of single-family bonds, short-term**

1 **credit facilities for homeownership purposes,**
2 **and related financial agreements and contracts**
3 **for services**

4 CHAIR COURSON: Okay, having said that, we now
5 move to the next agenda item, which are three resolutions
6 by Mr. Gilbertson.

7 MR. GILBERTSON: It actually is afternoon. So
8 good afternoon, Mr. Chairman and Members of the Board.

9 Each January we present for the Board's
10 consideration a series of resolutions to provide
11 continuing authorization to issue bonds and enter into
12 the full range of financial agreements to manage our debt
13 obligations.

14 This morning I have in front of you, and I will
15 present three resolutions for the Board's consideration.

16 The first has to deal with our single-family
17 financing resolution, reauthorization to issue bonds in
18 support of the single-family programs of the Agency.

19 Resolution 07-04 is our multifamily financing
20 reauthorization, again to provide us with the authority
21 to issue bonds and enter into related agreements as it
22 relates to the multifamily loan programs of the Agency.

23 And the third resolution is authorization for
24 the Agency to apply to the California Debt Limit
25 Allocation Committee, to receive private activity volume

1 cap, which, of course, is the backbone of the Agency and
2 our ability to issue tax-exempt bonds.

3 Resolution 07-03 is authorization to issue our
4 single-family bonds in the following amounts under any of
5 the previously approved forms of indenture, including the
6 most recently approved form of indenture from the
7 November meeting, our new residential mortgage revenue
8 bond indenture. This resolution would authorize the
9 issuance of bonds equal to the amount of bond principal
10 being retired and certainly eligible to be refunded
11 pursuant to federal tax law.

12 In addition, we would be able to issue bonds
13 equal to the amount of the private activity bond cap that
14 we received from the California Debt Limit Allocation
15 Committee, and, lastly, would authorize the issuance of
16 up to \$900 million of taxable bonds.

17 Now, I guess before I skip ahead here, I wanted
18 to just cover, Resolution 07-03, in addition, would
19 authorize the full range of these financial agreements
20 that we need to conduct our business. This ranges from
21 agreements to enter into investment of bond proceeds, to
22 hedge interest-rate exposure in the derivatives market,
23 to hire consultants and advisors as needed to help us
24 manage our swap portfolio and assist us in quantitative
25 analysis.

1 This resolution would also reauthorize the use
2 of short-term credit facilities. We're asking this year
3 for up to \$500 million in short-term credit facilities in
4 the aggregate for all program purposes.

5 Remember, the short-term credit facilities are
6 those sources we use to warehouse loans stemming from the
7 pipeline of both single-family and multifamily.

8 And lastly, Resolution 07-03 is a form of
9 continuing authorization. I just want to cover this.
10 Each year we come in January. The resolution will not
11 expire until 30 days after the January 2008 Board
12 meeting, at which there is a quorum to vote.

13 A quick look then at some of our plans as we
14 move forward in calendar year 2007. We anticipate a very
15 busy financing calendar this year. Specifically, in
16 support of our single-family loan programs, we plan to
17 issue bonds every other month, with a planned
18 introduction of our mortgage-backed securities program.
19 Sometime later this spring, it is very likely that we
20 will actually close ten separate bond financings during
21 the calendar year, all in support of the single-family
22 program.

23 We will continue to use the Home Mortgage
24 Revenue Bond program for whole loan purchases. Again,
25 our plan is to continue to purchase whole loans that are

1 FHA-insured and VA-guaranteed; while at the same time, by
2 May, we hope to have issued our first bonds under the
3 Residential Mortgage Revenue Bond indenture. And those
4 bonds, of course, will be issued to finance the purchase
5 of mortgage-backed securities.

6 As I mentioned earlier, we'll continue to use
7 the short-term credit facilities. This is an ideal
8 mechanism for us to temporarily -- all the single-family
9 first mortgages coming through and originated by our
10 network of originating lenders prior to their individual
11 assignment, either in a whole loan form or in a
12 mortgage-backed security to specific bond series.

13 Instrumental in this, of course, is the existing
14 line of credit that we have from the State Pooled Money
15 Investment Board, which facilitates that for us.

16 As Terri mentioned earlier, the recently
17 completed sale of approximately \$60 million of loans to
18 Fannie Mae has provided us ample liquidity for our down
19 payment assistance programs as we look out over the next
20 year to two years, potentially. So there are no current
21 plans for us to issue bonds for down payment assistance,
22 as we have in each of the last several years.

23 At that point, I think I'll stop and see if
24 There are any questions regarding Resolution 07-03.

25 I would be happy to answer any questions.

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1 CHAIR COURSON: Mr. Czucker?

2 MR. CZUKER: Can you share with us -- first of
3 all, I think you're doing a great job, and my compliments
4 to everything you're doing for the Agency, specifically
5 because this is a large institution with a lot of moving
6 parts. And you are on the front line of hedging our
7 risk, especially whether it's interest-rate risk or
8 whether it's portfolio risk. And so we really appreciate
9 the time and effort and the performance you've put in
10 here.

11 I'm very curious just to fill in a few blanks.
12 I think the hedging program is going great. And I
13 compliment you there.

14 I wanted to ask, on the short-term credit
15 facilities, who are those with and what terms -- you
16 know, lending rates? And then similarly, on the
17 continuing borrowing with the state investment fund and
18 the bank line of credit for loan warehousing, who are
19 those with, and what type of rates and costs are there to
20 the Agency from those facilities or lending practices?

21 MR. GILBERTSON: Certainly.

22 Our short-term credit facilities really are
23 comprised of two different lines of credit. The first
24 one and the largest one -- is that me making all the
25 static? -- is currently \$350 million. It's with the

1 State Surplus Money Investment Fund.

2 Basically, what we do is, it's renewable on a
3 semi-annual basis.

4 The State Treasurer assesses an interest rate
5 based off the time of application. So we most recently
6 renewed this in the summer of 2006; and it would have
7 reflected the earnings rate of the pool that the State
8 Treasurer administers at that time.

9 My recollection -- and I don't have this exact
10 number -- it was in the mid to high 4 percent range at
11 that time.

12 The other line of credit that we have is with
13 a commercial bank. It's the Bank of America. We entered
14 into this approximately two years ago. It has one
15 additional year to run. The interest earnings -- and
16 that is, currently, it's a \$100 million line. We have
17 the ability to increase it to \$150 million.

18 We use that line more specifically for our
19 multifamily programs; and there's a number of loans as
20 we're originating and directly funding those loans that
21 we initially warehouse before we utilize bond proceeds.

22 The interest rate there is dependent on the
23 length of time we want to draw on the line.

24 We typically, not in all cases, these are
25 relatively short-term, weekly; and we pay one-month LIBOR

1 plus the spread. I believe that spread is 30 basis
2 points.

3 So in today's environment, with one-month LIBOR,
4 at about 5.40, we'd be paying 5.70.

5 CHAIR COURSON: Any other questions?

6 MR. CZUKER: A comment, but it might be -- I
7 support all three of the resolutions. But my comment is
8 as a reflection of multifamily towards single-family in
9 terms of the Agency's volume, I'd like to see the
10 multifamily portfolio increase; and hopefully with the
11 new addition of the salary increases and some greater
12 stability with the depth and breadth of the Agency staff,
13 there could be a marketing effort to increase the
14 multifamily portfolio, so that it -- I know we've made
15 great strides in the single-family portfolio, as
16 evidenced by all the different channels for marketing and
17 distribution and purchases of loans -- if there's a way
18 that we could encourage you and the Agency as a whole to
19 make a similar effort to increase the Agency's portfolio
20 towards multifamily -- especially with all the new
21 financing products, both taxable and tax-exempt, and
22 creative financing -- that could encourage affordable
23 housing on a rental basis throughout the state, I think
24 it would be greatly needed and should be an added focus
25 to the business plan, which is perhaps premature to the

1 next topic.

2 MR. GILBERTSON: Yes, absolutely. I can't tell
3 you the number of hours that we have met in a senior
4 management group discussing the lack of competitiveness
5 today of our multifamily products.

6 We've spent an awful lot of time in calendar
7 year 2006 reassessing from interest rates, to
8 architectural and design requirements, trying to
9 fine-tune the program.

10 I believe the anticipation is within a month
11 to two months -- I was looking for Steve -- that we will
12 try to go out and actively try to market the new
13 features of the multifamily program, that would be
14 multi-faceted, to try to attract new business.

15 CHAIR COURSON: Mr. Gilbertson, do you want to
16 deal with these one by one, the resolutions, or what
17 would you --

18 MR. GILBERTSON: I think -- that's my
19 recollection of how we've done it in the past.

20 CHAIR COURSON: Then I think a motion is in
21 order for the approval of Resolution 07-03.

22 MR. CZUKER: So moved.

23 CHAIR COURSON: Is there a second?

24 MS. JACOBS: Second.

25 CHAIR COURSON: Is there any discussion?

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1 (No audible response)

2 CHAIR COURSON: Any comments from the public?

3 (No audible response)

4 CHAIR COURSON: If not, call the roll.

5 MS. OJIMA: Mr. Pavao?

6 MR. PAVAO: Yes.

7 MS. OJIMA: Mr. Carey?

8 MR. CAREY: Yes.

9 MS. OJIMA: Mr. Czuker?

10 MR. CZUKER: Yes.

11 MS. OJIMA: Ms. Galante?

12 MS. GALANTE: Yes.

13 MS. OJIMA: Ms. Jacobs?

14 MS. JACOBS: Yes.

15 MS. OJIMA: Mr. Morris?

16 MR. MORRIS: Yes.

17 MS. OJIMA: Mr. Davi?

18 MR. DAVI: Yes.

19 MS. OJIMA: Mr. Shine?

20 MR. SHINE: Yes.

21 MS. OJIMA: Mr. Courson?

22 CHAIR COURSON: Yes.

23 MS. OJIMA: Resolution 07-03 has been approved.

24 CHAIR COURSON: Thank you.

25 --o0o--

1 **Item 9. Resolution 07-04**

2 **Discussion, recommendation, and possible action**
3 **relative to the adoption of a resolution**
4 **authorizing the Agency's multifamily bond**
5 **indentures, the issuance of multifamily**
6 **bonds, short-term credit facilities for**
7 **multifamily purposes and related financial**
8 **agreements and contracts for services**

9 MR. GILBERTSON: Moving on to Resolution 07-04,
10 this is the multifamily bond reauthorization resolution.
11 And this would provide authorization for us to issue
12 multifamily bonds, again under any of the approved forms
13 of indentures that are all listed in the resolution in
14 the following amounts, again, equal to the amount of bond
15 principal being retired, and as well, the amount of any
16 private activity bond volume cap we would receive from the
17 Debt Limit Allocation Committee, up to \$800 million for
18 the combination of any 501(c)(3) eligible bonds, and
19 federally taxable bonds. In addition, it would provide
20 authority for us to issue up to \$300 million to acquire
21 existing loan portfolios.

22 Like Resolution 07-03, the single-family
23 financing resolution, this resolution would authorize the
24 full range of related financial agreements. We do this
25 somewhat repetitive, but we want to make sure that we

1 have clear authority to enter into agreements for the
2 investment of bond proceeds to hire advisors and
3 consultants in managing our complex debt instruments, if
4 you will.

5 This resolution, again, authorizes the same
6 \$500 million as a short-term credit facility to allow us
7 to do the loan warehousing that we just discussed; and
8 just as the single-family resolution, this resolution
9 provides for continuing authorization, and would not
10 expire until 30 days after the board meeting in January
11 of 2008.

12 A quick look then, if you will, at our plans in
13 Multifamily. They're certainly not as robust as they are
14 in single-family, but we hope that changes during the
15 course of the year.

16 *(Chair Courson briefly left the meeting room.)*

17 MR. GILBERTSON: The plans at this point are to
18 really issue three pooled bond financings that will
19 closely coincide with when private activity bond cap is
20 awarded to us by the Debt Limit Allocation Committee.
21 Current plans call for those to be issued in March,
22 July, and October. We would continue to use the
23 Multifamily Housing Revenue Bonds III indenture, this
24 is a General-Obligation-backed indenture of the Agency.
25 It has worked very, very well in financing, both

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1 construction, bridge, and permanent loans for the Agency.

2 Again, the use of the short-term credit
3 facility, as I described, would be to allow us to access
4 capital, to warehouse loans if our timing of bond
5 issuance is not exactly identical with the needs of the
6 borrowers in financing their loans.

7 And I'd be happy to answer any questions
8 relating to Resolution 07-04.

9 VICE CHAIR SHINE: Are there any questions from
10 the Board? Comments?

11 MS. GALANTE: Is the \$300 million for loan
12 acquisitions, is this a new program, or is this just --

13 MR. GILBERTSON: This is a component of the
14 resolution that dates back to about 2000.

15 The Agency has one time made an acquisition
16 portfolio, and I believe it was in calendar year 2000.
17 At that time we acquired the Fannie Mae 236 portfolio.

18 VICE CHAIR SHINE: Do we have a motion?

19 MR. CZUKER: So moved.

20 VICE CHAIR SHINE: Second?

21 MS. JACOBS: Second.

22 VICE CHAIR SHINE: Any further discussion from
23 the Board?

24 *(No audible response)*

25 VICE CHAIR SHINE: From the public?

1

(No audible response)

2

VICE CHAIR SHINE: If not, call the roll,

3

please.

4

MS. OJIMA: Thank you, Mr. Shine.

5

Mr. Pavao?

6

MR. PAVAO: Yes.

7

MS. OJIMA: Mr. Carey?

8

MR. CAREY: Yes.

9

MS. OJIMA: Mr. Czucker?

10

MR. CZUKER: Yes.

11

MS. OJIMA: Ms. Galante?

12

MS. GALANTE: Yes.

13

MS. OJIMA: Ms. Jacobs?

14

MS. JACOBS: Yes.

15

MS. OJIMA: Mr. Morris?

16

(No audible response)

17

MS. OJIMA: Mr. Davi?

18

MR. DAVI: Yes.

19

MS. OJIMA: Mr. Shine?

20

VICE CHAIR SHINE: Yes.

21

MS. OJIMA: Mr. Courson?

22

(No audible response)

23

VICE CHAIR SHINE: And?

24

MR. GILBERTSON: And the last resolution that I

25

have to present is Resolution 07-05.

1 MS. OJIMA: Resolution 07-04 has been approved.

2 MR. GILBERTSON: Thank you, JoJo.

3 VICE CHAIR SHINE: Thank you.

4 And?

5 --oOo--

6 **Item 10. Resolution 07-05**

7 **Discussion, recommendation, and possible action**
8 **relative to the adoption of a resolution**
9 **authorizing applications to the California**
10 **Debt Limit Allocation Committee for private**
11 **activity bond allocations for the Agency's**
12 **homeownership and multifamily programs**

13 MR. GILBERTSON: And Resolution 07-05 would
14 authorize our application to the California Debt Limit
15 Allocation Committee for an award of private activity
16 bond volume cap for both our single-family and
17 multifamily programs. This resolution would authorize
18 the application for a maximum of \$900 million for the
19 single-family program and \$400 million for the
20 multifamily program.

21 While I realize that the authorization requested
22 by this resolution may actually be in excess of the
23 amounts we actually apply for, we think it's important or
24 presume that the Board would want us to have this
25 authority in case additional amounts became available

1 through the creation of the pools that the California Debt
2 Limit Allocation Committee creates on an annual basis.

3 And lastly, the authorization requested by this
4 resolution would be in effect during the period of that
5 the two previous resolutions would be in effect. So this
6 would be overlapping authority that would extend into
7 January of 2008.

8 *(Mr. Courson returned to the meeting room.)*

9 MR. GILBERTSON: With that, I'd be more than
10 willing to answer any questions you may have.

11 VICE CHAIR SHINE: From the Board?

12 *(No audible response)*

13 VICE CHAIR SHINE: Can we get a motion?

14 MR. CZUKER: So moved.

15 MS. JACOBS: Second.

16 VICE CHAIR SHINE: Thank you.

17 Any comments from the Board?

18 *(No audible response)*

19 VICE CHAIR SHINE: From the public?

20 *(No audible response)*

21 VICE CHAIR SHINE: If not, let's call the roll.

22 MS. OJIMA: Mr. Pavao?

23 MR. PAVAO: Yes.

24 MS. OJIMA: Mr. Carey?

25 MR. CAREY: Yes.

1 MS. OJIMA: Mr. Czucker?
2 MR. CZUKER: Yes.
3 MS. OJIMA: Ms. Galante?
4 MS. GALANTE: Yes.
5 MS. OJIMA: Ms. Jacobs?
6 MS. JACOBS: Yes.
7 MS. OJIMA: Mr. Davi?
8 MR. DAVI: Yes.
9 MS. OJIMA: Mr. Shine?
10 CHAIR COURSON: Mr. Shine?
11 VICE CHAIR SHINE: Yes.
12 Thank you, sir.
13 CHAIR COURSON: Was that a "yes" vote?
14 VICE CHAIR SHINE: Yes.
15 MS. OJIMA: Thank you, Mr. Shine.
16 Mr. Courson?
17 CHAIR COURSON: Yes.
18 MS. OJIMA: Resolution 07-05 has been approved.
19 MR. GILBERTSON: Thank you.
20 CHAIR COURSON: Thank you, Bruce.

21 --o0o--

22 **Item 11. Business Plan Update**

23 CHAIR COURSON: The next item on our agenda is
24 the business plan update. Every year in January, we
25 revisit our business plan that we approved for the year.

1 And Terri, I think, is going to take us through
2 that.

3 You should have at your place a business plan
4 update package.

5 MS. PARKER: Mr. Chairman, Members, I'm going to
6 do this presentation today.

7 Mike, do we have this on? Because I don't do
8 these.

9 I'm walking you through this today. I wasn't
10 sure, frankly, how long the different items would go and
11 what your tolerance was for sitting in a chair. So I was
12 going to walk you through this information very briefly.

13 Just some opening remarks, though. All of the
14 staff here representing the various program areas are
15 here and more than ready to answer any questions that you
16 might have.

17 I will say, again, this is our usual process to
18 give you an update on where we are in our business plan
19 from a production standpoint in January. Then what we
20 would be doing is following up in our March meeting, with
21 coming back and talking to you based on the staff having
22 an off-site, trying to work with our constituency
23 stakeholder groups about where the market might be, what
24 changes we might want to propose, what the Agency's
25 liquidity is for consideration, and internal staff

1 resources for new and innovative programs.

2 And we would be bringing you some suggestions
3 and ideas at the March meeting; and certainly that is the
4 time for looking for key direction on policy, philosophy
5 from the Board on where the staff should be developing
6 alternative program considerations for you that we could
7 then go back and work into a business plan proposal to
8 come to you in May for your consideration and adoption.

9 So let me go through these slides briefly.

10 The first slide -- Steve, if you'll help me --
11 is really an overview of our Homeownership Program. As
12 you can see, our goal of a little over \$1.4 billion,
13 we're on track to exceed that, of almost \$1.8 billion.
14 There are some statistics on the side, about the success
15 of the various programs. The *interest only PLUSSM* has been
16 a major success, and keeping our volume up. And this will
17 be the prime program that, when we institute the MBS
18 program with Fannie Mae, that these loans will be
19 converted into an MBS and securitized and then held on
20 our balance sheet in that manner.

21 The benefit, again, will be the liquidity
22 provided, but also the fact that the risk associated with
23 these loans will no longer be on our Mortgage Insurance
24 program.

25 This also reflects that we've sold our 6,000

1 subordinate loans to Fannie Mae. We have selected a
2 master servicer for the implementation of the MBS program.

3 And Ken Giebel and his staff have done an
4 outstanding job with continuing their marketing efforts
5 with realtors, lenders, and stakeholder groups.
6 Including just recently, if you were in the Sacramento
7 area, you may or may not have seen some ads that we have
8 on television, which I have had a number of e-mails of
9 comments by people of the quality of them, and the
10 message is right on point.

11 Going to the second --

12 CHAIR COURSON: Can I ask?

13 I think you said that by virtue of selling our
14 interest-only product to Fannie Mae, our mortgage
15 insurance is no longer in effect.

16 MS. PARKER: There is the risk --

17 CHAIR COURSON: We are still the mortgage
18 insurer --

19 MS. PARKER: Yes.

20 CHAIR COURSON: -- on those loans.

21 We're just selling the loans into an MBS?

22 MS. PARKER: That's correct.

23 CHAIR COURSON: Okay.

24 MS. PARKER: But from a rating-agency
25 standpoint, the rating agency's concern about our reserve

1 requirements for that risk is reduced by the partnership
2 with Fannie Mae.

3 CHAIR COURSON: No -- I mean, yes, I meant to
4 clarify your statement.

5 MS. PARKER: That was my point. Thank you.
6 Thank you, Mr. Chairman.

7 The next slide is a combination of the two down
8 payment assistance programs that are funded out of our
9 discretionary Housing Trust Fund. Our HiCAP Program,
10 which is in a few geographical locations that are high
11 housing cost, and our CHAP Program, which is a down
12 payment assistance program.

13 The reason why I'm including this in the message
14 on this chart is if you look at the production of
15 \$1.8 billion, almost, over a planned goal over a little
16 bit over \$1.4 billion, we had presumed that we needed
17 approximately 35 -- or had \$35 million worth of housing
18 trust funds for down payment assistance to try to
19 generate a little over \$1.4 billion worth of loans.

20 We have been so successful with managing this
21 resource that we have been able to achieve an even
22 greater goal with this same amount of dollars. And I
23 think the good news for the Board is, particularly a
24 couple of years ago when we spent almost \$85 million in
25 funds for these two programs, that we have been

1 significantly able to reduce the use of Housing Trust
2 Funds and meet or exceed our housing goals in
3 single-family.

4 Moving along, for those of you, more than
5 anything else, it's just an update of where we are with
6 Prop. 46 funds. As you can see, we continue to have
7 strong available balances in a number of our programs.
8 And I think that this goes hand in hand with why the
9 Prop. 1-C bond that just passed really did not include as
10 much new money for down payment assistance programs as
11 Prop. 46 did for CalHFA because we still have a number of
12 programs that we have fund balances left in it. But we
13 will be augmenting these to reflect the additional funds
14 through 1-C.

15 The next slide, I think it's important, I just
16 want to give you a sense of where we track as far as our
17 REOs. And I know it's not a great line; but down there,
18 at the very bottom, kind of running into the months of
19 December, March, June, September, October, and November,
20 is really CalHFA's line. And I think if you can just
21 look at this, it continues to demonstrate that CalHFA's
22 REOs relative to the rest of the market continues to be
23 low and well-managed.

24 Mr. Chairman, that's my comments. I want to try
25 to go through these by program. If anyone else has

1 anything on Homeownership, otherwise, I'll move into
2 Mortgage Insurance.

3 CHAIR COURSON: Questions from the Board?

4 *(No audible response)*

5 CHAIR COURSON: Okay.

6 MS. PARKER: The next slide is really to give
7 you an idea of the tremendous success of our Mortgage
8 Insurance program. You can see where we are
9 year-to-date. We're 141 percent of goal.

10 Clearly, if we're -- that given the relationship
11 between the use of the IOP program, having the ability of
12 our own Mortgage Insurance program and the successes of
13 that, have enabled us to create products that we would
14 not otherwise have, given the decline of other insurances
15 like FHA or private mortgage insurers.

16 The programs in the Mortgage Insurance Program
17 have been successful, well-received by our stakeholders,
18 and really are providing a great complement to the huge
19 success that we are having in our First Mortgage Program.

20 So I want to compliment, we are reaching new
21 heights every day of insurance written; and also for you
22 to note that the percentage of CalHFA loans that have
23 mortgage insurance continues to increase. And so that's
24 going to, again, be a key factor that we think will be
25 significant in managing the programs going forward

1 through the MBS program with Fannie.

2 Moving right along, we'll talk a little bit
3 about the Multifamily Program.

4 Mr. Czucker, you mentioned earlier, and I wanted
5 to tell you that from the staff's standpoint, there is
6 nothing that would make us happier than to see these
7 numbers be substantially greater than what they are. We
8 feel like this year what we have done is really used as
9 an interim year to work on extensive loan closings. The
10 Bay Area Housing Plan, which you all know in here is a
11 very difficult program to be implementing and
12 administrating, but also to do a whole retooling of our
13 Multifamily Program.

14 We have talked about everything from interest
15 rates, as Bruce had said, to our requirements for
16 earthquake insurance, to just our loan-processing
17 program, and including the ever-famous architectural
18 review, which I will point out, in discussion with our
19 stakeholder and focus groups, and we expect to be coming
20 back with a final proposal, hopefully before the next
21 board meeting.

22 So this is the area that we are all most focused
23 on wanting to try to be improving. I think when we do
24 our discussions with you next Board meeting, we'll be
25 talking about some of our ideas from the working group

1 and certainly are interested in any important comments
2 from you all.

3 One of the things that we're going to be doing
4 is asking a former economist from the Department of
5 Finance to speak to our staff about what the market
6 looks like, try to take that into consideration. I think
7 many of you that are in this business realize that for
8 anybody, including CalHFA, this has been a tough time to
9 do multifamily projects. But we are committed. We know
10 that this is one of the Board's major priorities. And
11 the staff will be coming forward with every good thought
12 and recommendation we can do to increase this area.

13 The next sheet is just a recap of Asset
14 Management. This is the good work Margaret and her staff
15 are doing, in continuing to look at ways to recapitalize
16 and preserve our properties in our portfolio. Clearly,
17 we all recognize that to preserve projects is easier and
18 cheaper than if we have to go out and create them again.
19 But it is, and as Margaret has reported, a continual
20 issue for us to be mindful of, that as these projects
21 age, the need for them to be recapitalized. And so we
22 are looking at those particular issues, along with the
23 issue that I mentioned in my opening remarks about a
24 concern on many of our owners' parts about trying to see
25 if there are alternatives to gain capital or equity

1 that's currently embedded in their projects.

2 So we'll be coming forward with further
3 information. But I think the big story for Margaret's
4 area is the success of her and her staff in selling five
5 of our six REOs. We had previously gone out to the
6 market to do this as a package; it was not successful.
7 We worked with a broker. Came back. And I think as we
8 reported to you in the past, we were successful in
9 selling five of them and creating almost \$350 million of
10 new liquidity for the Agency.

11 The good news about that is the people who have
12 bought these projects and the commitment to maintain them,
13 to do refurbishing and what-not were necessary; and all of
14 those transactions have been very successful and
15 completed.

16 Let me take a breath here.

17 Special lending programs. These are the niche
18 programs that we have created, many of them with your
19 leadership, that we feel, while they're small programs,
20 are making a big difference out there with our customers,
21 and particularly our partners in local government --
22 levels of local government.

23 The Residential Development Loan Program is a
24 new one that we have implemented just this last year.
25 The purpose of this program was to really work with

1 creating housing stock in the homeownership and
2 single-family area. We've had one funding round to date
3 where we have committed \$7.75 million to three
4 localities. We have two funding rounds to go in
5 additional, as part of this business plan.

6 I would also point out that this is one of the
7 areas in Prop. 1-C that included another \$100 million.
8 So I think it is recognition that this is a program that
9 we hope to really do some good partnerships with
10 localities, with developers, to get affordable
11 single-family housing in the marketplace.

12 CHAIR COURSON: When you say "funding rounds,"
13 we have not yet funded any of those loans?

14 MS. PARKER: We've committed.

15 CHAIR COURSON: Right.

16 MS. PARKER: Seven, almost eight million
17 dollars.

18 CHAIR COURSON: Because I was going back, and I
19 noticed on the previous page that we had the full
20 \$75 million still available.

21 MS. PARKER: Right.

22 CHAIR COURSON: So I assume we haven't closed
23 anything.

24 MS. PARKER: Right.

25 The Housing Enabled by Local Partnerships

1 continues to be a program in high demand. We are working
2 through our second -- we've just worked through our first
3 round of commitments to our clients, to nine localities.
4 We are about ready to announce our second round out in
5 the community in February. This continues to be a
6 program that is highly used by localities for anything
7 from multifamily to homeownership and down payment
8 assistance. And we continue to be told by localities
9 that this is the programs that really make a difference
10 for them, in their individual areas, in getting
11 high-housing-need housing accomplished by them.

12 The last program is also a new program that was
13 instituted just this last year, and that is the Habitat
14 for Humanity Loan Purchase Program. We had \$5 million for
15 this program. We have committed to seven Habitat
16 programs about \$3.1 million in commitments. And to date,
17 we've purchased \$1.6 million of these programs.

18 And we continue to be working with the Habitat
19 community, to make sure that they're aware of these
20 monies that are available, and what might be appropriate
21 programs for future funding rounds.

22 With that, Mr. Chairman, that concludes my
23 discussion about the business plan from the production
24 standpoint.

25 And the last page that JoJo just handed out, is

1 the mid-year update for our administrative budget, our
2 expenditure item that the Board approves.

3 Just to say, again, that this is our
4 administrative budget. This does not include the major
5 contracts that we have with everything from bond counsel
6 to underwriting counsels, but is our administrative
7 services budget.

8 The approved budget was a little over
9 \$36 million. We are not quite at half of that with
10 mid-year actuals. But I want to point out two things:
11 One, the additional budgeted amount that the Board
12 approved in May did not include anything for general
13 salary increases. We told the Board that when those were
14 approved, we would come back with a request, depending on
15 where we were in our operating budget.

16 With the action that you've taken today for our
17 exempt appointments, it also does not include that salary
18 increase.

19 So I will be working with Jackie over the next
20 two months, and to the extent, looking and following very
21 closely where we are on a month-by-month basis of actuals
22 to budgeted to see what we need to do as far as coming
23 into an amendment to our budget.

24 CHAIR COURSON: The line that -- there's a line
25 here called "consulting and professional services," but I

1 think you said also that bond counsel and outside
2 advisors aren't included in this budget.

3 MS. PARKER: Not on this line item.

4 CHAIR COURSON: I have two questions. First of
5 all, what's in this line item; and, secondly, why aren't
6 they?

7 MS. PARKER: I probably might have Tom answer
8 the second, but I'd be happy to answer the first one.

9 I think that we have, in the past, when we do
10 this budget, given you what is the detail to these
11 particular line items. Consulting and professional
12 services, a good part of this are the consultants that we
13 are using for strategic planning initiatives. It
14 also includes legal fees to the O'Melveny law firm for
15 the HC case, and another law firm for our Ridgeway
16 lawsuit. Those are probably some of the biggest members
17 that are in the consulting and professional services line.

18 Jackie, correct me if I'm wrong, were the
19 salaries for the two consultants that we hired to fill
20 Multifamily -- to fill --

21 MS. RILEY: Outside firms --

22 MS. PARKER: But where was Chuck's and
23 Steve's -- did they come out of --

24 MS. RILEY: They are reported out of this line,
25 yes.

1 MS. PARKER: Yes, so both Steve's and Chuck's
2 consulting contracts of last year come out of this line
3 item also.

4 CHAIR COURSON: And a question: Why are there
5 other consulting arrangements that aren't included as
6 part of this?

7 MR. HUGHES: I'll take a shot at answering that.
8 I may have to partially punt to my colleagues in
9 Financing; but my understanding is the Agency's
10 operating budget, as you see it, is a very small
11 component of our overall operating expenses, as shown on
12 our financials. And many of those costs are bond-related
13 costs, cost of issuance, and matters that are essentially
14 paid for within the bond indentures rather than part of
15 our operating expenses that we'd cover out of the spread
16 that we make from the loans that we've made.

17 And if that is not correct, I'm sure that my
18 colleagues will correct that. But that's generally how
19 we show our expenses.

20 CHAIR COURSON: Thank you.

21 MR. HUGHES: Is that correct?

22 Good.

23 MS. PARKER: Mr. Chairman, I'm not sure if I did
24 mention, but just so the Board is aware of this, we do
25 have a number for the general salary increase, and that's

1 a little over a million dollars. So when we price out
2 the other, we'll be looking at that. But I just wanted
3 to -- since I did have that number, I wanted to leave
4 that with you.

5 CHAIR COURSON: Right.

6 Mr. Czuker?

7 MR. CZUKER: One suggestion to look into,
8 perhaps, is perhaps a program for multifamily that might
9 make CalHFA more competitive, is if a multifamily low
10 floater bond option would be available with a rolling,
11 sinking fund for an interest rate cap, Fannie Mae has a
12 five-year rolling sinking fund for future interest rate
13 caps. If CalHFA offered low floater bonds, it may, once
14 again, be attractive to the affordable housing community,
15 and certainly put it on par with private activity bonds.
16 So I'm just throwing that out as a -- in the past, the
17 issue has been hedging, and I think that provided: One, a
18 cap is purchased up-front; and, second, the sinking fund
19 to a rolling cap for future caps. The problem is, you
20 can't buy the cap for the full term of the loan because
21 it's cost-prohibitive. So by doing it in rollovers of
22 some term, as an example, five-year increments, it becomes
23 economically viable and maybe something worth exploring.
24 And so I just throw that out as a concept to make our
25 Multifamily Program more competitive.

1 MS. PARKER: Thank you.

2 CHAIR COURSON: Okay, any other questions of the
3 executive director?

4 *(No audible response)*

5 --oOo--

6 **Item 12. Presentation and public comment regarding**
7 **schedule of mortgage insurance premiums**
8 **pursuant to Health & Safety Code Section 51657**

9 CHAIR COURSON: Okay, if not, we will move to the
10 next agenda item, which is Mortgage Insurance.

11 And Chuck McManus is going to help us.

12 You have a handout in front of you, and I think
13 it also is duplicated inside the Board books. So you
14 have --

15 MR. HUGHES: Mr. Chair, Chuck and I just spoke,
16 and several people have asked about the nature of this
17 presentation. And I just wanted to explain why we put
18 this on the agenda. It's not an action item.

19 Our statutes require the mortgage insurance
20 premiums to be subject to some public comment or some
21 public hearing when we made adjustments to them. And it
22 contemplates a relatively simple rate card; and the rates
23 in reality are really formative, based on depth of
24 coverage and LTVs and things like that.

25 We felt this would be a good opportunity, as our

1 products have become more complex, to lay out the
2 entirety of our rate card and solicit any public comment
3 that folks might have about how that rate card is made
4 up.

5 And that's the presentation we'll have today.

6 *(Mr. Czuker left the meeting room.)*

7 MR. McMANUS: Thank you, Tom.

8 First, just to position it, you saw some charts,
9 but the Mortgage Insurance fund reached \$2 billion of
10 insurance in force at year end. And of that, we have
11 risk in force of just under \$800 million, 75 percent of
12 which is reinsured with Genworth. And so the insurance
13 fund under the Agency has about \$200 million at risk on
14 our Mortgage Insurance.

15 What I'd like to do is review -- we've got two
16 different rate sets.

17 Our goals and our rates are: Number one, we
18 have to generate enough premium revenue to pay claims, to
19 pay our expenses, and to have a slight contribution to
20 building capital for future insurance needs. And our
21 other goal is to minimize the premium rate for the
22 borrowers. And so I'll go through the rates and show you
23 where we are versus public competition, and also our new
24 rates under the Fannie Mae program, which will save our
25 borrowers significant money.

1 On page 226, which is also the second page of
2 the freestanding handout, entitled "Mortgage Insurance
3 Comparison." And it's got "30-, 40-Year Fixed Rate" just
4 under the title.

5 This is the coverage we use for bond-financed
6 mortgages. This is our traditional, what has been
7 operating in the past, and they're still operating today.
8 We require 35 percent primary mortgage insurance. I've
9 used 100 percent LTV as the example here, because that's
10 over 50 percent of our business. And I've gone down on
11 requirements and what the rates are. And if you look at
12 cost, our premium rate on a 100 percent LTV, 30- or
13 40-year fixed rate, is .85 percent per year, versus
14 public PMI, MGIC, and Radian of .96.

15 So we're 11 basis points lower. That works out
16 on a \$300,000 loan, which is close to our average, of a
17 \$330 savings for our borrowers.

18 Next, on the manually underwritten, just under
19 that, I just wanted to show our underwriting criteria of
20 a minimum 620 FICO score. And that is the lowest.
21 Radian has that. We have a higher total debt ratio, so
22 we're more liberal in what loans we'll make at
23 45 percent. And again, our cost is lower than the public
24 competition.

25 On the next page, page 227 in your book, or the

1 third page of the freestanding handout, we're going to do
2 a Fannie Mae MBS program. And Fannie Mae only requires
3 20 percent coverage on the 100 percent LTV loan and then
4 less, as you go down the loan-to-value ladder.

5 Because of that, our borrowers will only have to
6 pay 59 basis points instead of 85. That is a significant
7 savings. It amounts to \$780 per year on a \$300,000 loan.
8 So that's \$65 a month. And for our borrowers, that's
9 very significant in qualifying them and in reducing their
10 cost of housing. So that's one of our big motivators to
11 moving into the Fannie Mae program, is to reduce the cost
12 to the borrowers.

13 Again, on underwriting criteria, you can see
14 the FICO minimum scores. And we're lower than any other
15 at 620 versus the 680, 700, and 640. So we're trying to
16 accommodate borrowers who haven't got the FICO scores
17 that the public companies require.

18 If you go to page 228, to the fourth one, this
19 is our interest-only. This is the product that will be
20 our first product going into the Fannie Mae program.
21 It's about half of our business right now, today. And
22 for the 20 percent coverage, we're going to charge
23 59 basis points. That's comparable for the highest, most
24 reliable borrowers. But when you move down the
25 FICO-score chain, we stay at 59 and the others grow.

1 And I believe Ms. Galante brought this up when
2 we first introduced the 620, and Chairman Courson said
3 "the public companies risk rate, and here's their risk
4 rating, so you can look at it." And I call your attention
5 to say a 575 to 599 category, we're still at 59 basis
6 points if they have some offsetting strengths that we
7 think it's going to be a good loan, they're going to be
8 able to make their payments. But PMI will be at 1.86,
9 MGIC at 1.74. They're three times as expensive. And
10 quite honestly, that higher rate may make the borrower
11 not qualify.

12 So if the Board wants us to risk rate, we can
13 certainly do it. And I apologize, I meant to introduce
14 Ken Bjurstrom.

15 Ken, would you stand up?

16 This is our partner from Milliman, our actuarial
17 firm. They are number one by far in the mortgage
18 insurance business. Ken, himself, personally deals with
19 most of the other mortgage insurers and also the
20 Massachusetts Housing Finance Agency. So if anyone wants
21 to ask actuarial questions, today is the day. He is here.

22 CHAIR COURSON: Ken has been with us before --
23 those of us who have been on the Board -- to make
24 presentations here.

25 MR. BJURSTROM: Thank you for inviting me.

1 MR. McMANUS: And he's here.

2 We're also working on a ten-year plan and
3 capital adequacy and S & P, and a few other things we
4 have to deal with.

5 But I just wanted to show you our rates are
6 lower, but we have to charge enough so that we can pay
7 our claims, and we have to underwrite the criteria. We
8 think we can maintain that claims per hundred. And we
9 are avoiding the 575 FICO because it has five times the
10 foreclosure rate. It's over 30 percent foreclosure rate
11 on a 575 FICO score versus our average, which is about
12 695.

13 And so we don't want to throw one in three
14 people out. So the only time we're going to go down to
15 the low FICO score is where we see a reason in the file
16 that whatever happened is not going to happen again, and
17 the people will be able to make their payments.

18 And finally, the last page, from 229 in the
19 book, it shows the rates that we'll charge on our
20 bond-financed loans, which basically is 35 percent
21 coverage. And underneath it, the rates that we'll charge
22 our borrowers on GSE, government-sponsored enterprise,
23 which is just a group word for Freddie Mac, Fannie Mae --
24 at least to us, those are the two primary ones. If we do
25 their programs, our borrowers will have much lower

1 mortgage insurance premium rates.

2 Are there any questions?

3 CHAIR COURSON: Questions of Mr. McManus?

4 *(No audible response)*

5 CHAIR COURSON: Chuck, that's a good report.

6 MR. McMANUS: Thank you very much.

7 --oOo--

8 **Item 13. Report of the Audit Committee Chairman**

9 CHAIR COURSON: The next item on our agenda is
10 a report of the Audit Committee, which met this morning
11 prior to the Board.

12 Chairman Shine?

13 MR. SHINE: Thank you, Mr. Chairman.

14 Since many of you were here, let me for the
15 record just state that we held our meeting this morning.
16 Staff gave its report, which encompassed the process by
17 which we're going to make a selection for auditors for
18 the next three years, which we'll be receiving proposals
19 in about a week. And everything seems to be going ahead
20 nicely.

21 And unless there's any questions, that's my
22 report.

23 MS. JACOBS: Excellent.

24 MR. SHINE: Thank you.

25 CHAIR COURSON: I could see the Board appreciates

1 your report, and perhaps its brevity.

2 MR. SHINE: Succinct.

3 --o0o--

4 **Item 14. Reports**

5 CHAIR COURSON: We have in our books, and if
6 anyone chooses, as you know, the director of Financing
7 puts an update on our financing; you have them in your
8 books. If we have questions, we can certainly ask Bruce
9 if he'd be willing to discuss them.

10 I would suggest that at this point, if no one
11 makes that request, that we have the information, and you
12 can consider that on your own, and clearly ask Bruce any
13 questions you have.

14 --o0o--

15

16

17 **Item 15. Discussion of other Board matters**

18 CHAIR COURSON: We've come to the time for any
19 public testimony. And we need to hold for just a minute
20 because we may have some public testimony awaiting us.
21 And I don't want to deny anybody the opportunity to appear
22 before the Board that has shown up at this location.

23 While we are waiting, I will talk. Mr. Czucker
24 raised a question about the July 5th meeting. We have
25 all sorts of problems with scheduling facilities and in

1 schedules for a July meeting. So we will see -- I
2 believe I'm correct in saying this year that July 4th is
3 on a Wednesday. It's the middle of the week. Our Board
4 meeting is scheduled for Thursday, July the 5th. I know
5 that those -- and it's in Sacramento.

6 I know those -- so all of the Sacramento people
7 are okay with that, but I think some of the Southern
8 California, Fresno people may have a question. We really
9 had a problem with it.

10 One of the things that we could do, if it would
11 facilitate everyone, we could start that meeting later
12 and give everybody from Southern California an
13 opportunity to come in; and perhaps as a change, do maybe
14 a one o'clock meeting, to finish by 4:00. And I don't
15 know what everybody -- that would give people -- so the
16 Southern California people would not have to travel on
17 the 4th; they could come up on the 5th, in the morning,
18 and give them plenty of time to get there, and have the
19 meeting and finish in time, and they could return that
20 evening.

21 MR. CAREY: That works for me.

22 CHAIR COURSON: We're talking about moving --
23 keeping the date of the 5th, to see if we could move the
24 meeting to an afternoon meeting, perhaps starting at
25 one o'clock; and then we would normally finish by about

1 4:00 or so, which gives the out-of-towners a chance to
2 travel.

3 JoJo will confirm that and renotice the Board
4 for that meeting; but we'll try for an afternoon meeting
5 on the 5th, rather than a morning meeting, so we can
6 accommodate the travelers, so that they don't have to
7 travel on the 4th to come to Sacramento.

8 --oOo--

9 **Item 16. Public Testimony**

10 CHAIR COURSON: We have come to a time for public
11 testimony.

12 I know we have two gentlemen on the project that
13 we previously discussed under Terri's report. But please,
14 gentlemen, if you'd like to --

15 MR. OWEN: Thank you, Mr. Chairman.

16 CHAIR COURSON: And we have Mr. Brent Owen
17 and --

18 MR. DUNLAP: John Dunlap.

19 CHAIR COURSON: -- John Dunlap.

20 MR. OWEN: We're the two sole owners of Boles
21 Creek Apartments in Weed, California.

22 I'm sure you recall, we were here in the
23 November meeting with some very specific problems.
24 Probably what was -- you were very pushed for time, and
25 we didn't get into any details. We were promised a

1 response back, which I guess the first time I've seen
2 anything was this draft that was handed me a second ago.

3 There was no conversation with CHFA, with any
4 staff persons to the development. So I don't even know
5 what this says. But I've got a pretty good idea what it
6 says.

7 The long and the short of it is really quite
8 simple. We requested urgent action last January. And
9 since this cannot go on, we have to do something. We
10 requested meeting after meeting with HUD, with you folks.
11 You're always friendly. You always meet. Unfortunately,
12 we can never get there. We can never get to a decision.
13 We're told that it requires a policy change in the Board.
14 So, well, let's go to the Board and talk to them.

15 And as you recall, what we specifically needed if
16 we are going to -- if CHFA is going to stonewall on this
17 project, which is just a bizarre set of circumstances.
18 You have 48 units. You have a mortgage rate of 9.125, and
19 it's 48 units. We're just shy of \$19,000 of a mortgage
20 rate per unit. Relatively low compared to what you guys
21 are financing now.

22 And if you drop the interest rate down to
23 7 percent, the thing economically works. If you keep it
24 at 9.125, it doesn't work. We said there has to be a way
25 to refinance that. Let us put our private money into it.

1 You can still take your 2 percent. If that doesn't work,
2 let's refinance the thing for the life of the loan, which
3 is only five more remaining years. And it's impossible;
4 we can't get from here to there. That's all I'm told.
5 And, obviously, there's a way to do it.

6 This project is in default right now. It's not
7 in default in terms of mortgage payments; but it's
8 certainly defaulting materially because we have no
9 operating budget. We've been operating for two years
10 without an operating budget. There's no cash flow.
11 There's cash payables for 120 days out. And something
12 has to give.

13 And so if CHFA wants to keep this in, then -- and
14 I heard that loud and clear today, that your concern is
15 protecting multifamily -- well, what you're saying to the
16 public and what you're doing privately are two different
17 things. There's got to be a way to preserve this.

18 Because our only way out is to file bankruptcy
19 and get a federal judge to say, "This contract is
20 canceled. This is fair market rent. We're done."
21 That's our only option out that we can see. And it's a
22 very ugly option, and it's one that we do not want to do.
23 We prefer to refinance this thing for five years at a
24 rate that we can live with that cash flows out, and then
25 we're done.

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1 Why does that seem such an impossible task to
2 get done?

3 CHAIR COURSON: I think you have -- Mr. Owens,
4 I appreciate your comments. And you have the letter,
5 which I think is the response. And when we discussed
6 this earlier, you probably may not have had a chance to
7 read the letter. There are some suggestions and some
8 alternatives that CalHFA has offered to help you work
9 with your problem.

10 Obviously, they are not the solution you'd like
11 to have, but they are the recommendations and some
12 alternatives that we have offered to you.

13 So I guess at this point we're at the position,
14 saying that that is the response from CalHFA. There are
15 some alternatives, either through reserves or refinancing
16 with an extended term, our potential sale of the project.
17 And if none of those three alternatives are acceptable to
18 you, then you, as the owner of the project, will have to
19 make a determination as to how you want to proceed.

20 MR. OWEN: All right, I guess that is the
21 answer.

22 I asked you specifically at the last Board
23 meeting to have it on the next board meeting, a request
24 to withdraw from the contract. And we're not expecting a
25 favorable response. But that's necessary for us to go

1 through that administrative procedure. And if you'd
2 check your minutes, you will see that request is on
3 there.

4 I'm going to make the same request now. At the
5 next meeting, we would like that request to be on there,
6 and so we can proceed to do what we have to do.

7 CHAIR COURSON: Well, the request -- and,
8 actually, it's ironic, because I did look at the minutes
9 about a week or so ago to make sure that we were back on
10 the agenda to discuss that. And the minutes, they say
11 that,

12 *"I would specifically ask for you to let us*
13 *prepay the mortgage. If I can't -- if I can't*
14 *come up with a solution to the problem, then I*
15 *specifically am going to ask, and you*
16 *obviously have the right to do that or reject*
17 *it, and we need to know that information."*

18 Those are the minutes from the last meeting.

19 MR. DUNLAP: From November?

20 CHAIR COURSON: Yes.

21 MR. OWEN: We've been with CHFA for 23 years
22 now, and never had a problem. And you talk about
23 fiduciary responsibilities; and I can tell you that this
24 Board is not meeting its fiduciary responsibilities when
25 you have a mortgage rate that is so outlandishly high,

1 and you're making HUD pay that subsidy for that, because
2 their subsidy is based on the amount of the interest
3 rate. And HUD forced you to refinance all your programs
4 once before. And maybe that's the solution. Maybe we
5 have to go back through that channel, to force that
6 again.

7 But something has to happen. It's not
8 reasonable to have a mortgage rate over 9 percent that
9 we're paying today, when the standard mortgage rates are
10 far, far less than that.

11 Thank you very much.

12 MR. DUNLAP: I have one comment to make before
13 we go. And that is that I assume you understand that we
14 didn't know anything about this letter, coming into the
15 meeting. Nobody advised us. We just drove down here to
16 see why it was that since that last meeting no one has
17 called or said anything to us at all. And there were
18 promises made that we would hear something right away.

19 And I am offended that I would come down here
20 today and have somebody discuss an item that involves us,
21 hand out a letter, and not even tell us if we were going
22 to be discussed on the agenda. I don't think that's
23 appropriate.

24 CHAIR COURSON: Thank you.

25 Mr. Davi?

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1 MR. DAVI: Could I ask a couple questions of
2 staff, if it's okay?

3 CHAIR COURSON: Please.

4 MR. DAVI: What's their total loan? Is it
5 \$912,000?

6 MS. PARKER: Margaret?

7 MS. ALVAREZ: I'm sorry?

8 MR. DAVI: What's their loan?

9 CHAIR COURSON: Approximately nine fifty,
10 according to the letter.

11 MR. DAVI: Okay, great. And their rate is
12 9 percent.

13 CHAIR COURSON: 9.15 percent.

14 MR. DAVI: Okay. And it matures in 2013, if I'm
15 not mistaken?

16 MS. PARKER: Correct.

17 MR. DAVI: It's fully -- it's an amortized loan
18 or is it interest-only?

19 MS. ALVAREZ: Fully amortized.

20 MR. DAVI: So the bulk of their payment today is
21 principal; is that a fair statement?

22 MS. ALVAREZ: Correct.

23 CHAIR. COURSON: Yes.

24 MR. DAVI: Okay. What's the annual shortfall?
25 Is it less than \$13,000 they're negative, or a loss, the

1 negative they can't seem to meet? There's a cash flow
2 problem is what I'm hearing. If it's -- is it less than
3 \$15,000? \$19,000? Because I don't see how a 2 percent
4 rate change is going to produce any cash flow for this
5 property. I mean, I'm just trying to throw myself into
6 their problem because I'm hearing what they're saying at
7 the second meeting. I don't see a reduction of interest
8 rate at this point alone, giving them any new cash flow or
9 any significance between fifteen and sixteen thousand
10 dollars annually.

11 And is your shortfall \$10,000, or is it 30,000
12 or 40,000 or 50,000?

13 MR. OWEN: She's the asset manager. Ask her.

14 MR. DAVI: What's the annual shortfall for
15 operation?

16 MS. ALVAREZ: I don't know specifically the
17 answer to that.

18 But I appreciate very much -- I appreciate their
19 comments. And many of our Section 8 owners feel the
20 same. So people should be aware that that is a general
21 sense of the portfolio, of many parts of the Section 8
22 portfolio. Which is why in the last couple years when
23 I have come here and talked about asset management, we've
24 talked about the Section 8 coterminous portfolio, the
25 aging of it, the need for recapitalization. And we've

1 been trying so hard to come up with a program that would
2 work for the borrowers and for the Agency.

3 There's a lot of nits on this. It isn't just a
4 simple matter of reducing an interest rate.

5 The HUD contracts call for a commensurate
6 reduction in the HAP subsidy payments if we just reduce
7 the interest rate. There's an expectation from CalHFA
8 and from HUD that to leave the rents higher when there
9 is an interest-rate reduction, there's a quid pro quo of
10 substantial rehab to the property or a lengthening of the
11 loan term, both of which, my understanding is, either
12 isn't necessary or not desired at the Boles Creek
13 property. And then there's, you know, 101 policy issues
14 and financing issues behind that, that have to be
15 resolved.

16 We have been working very hard on this; and, in
17 fact, at the next Board meeting we'll be presenting our
18 first Section 8 refinance loan that we'll be bringing to
19 the Board for approval. We've been, like I said, working
20 on this very diligently. And probably the number one
21 focus of the Asset Management group is to try to resolve
22 some of these issues.

23 But one of the things where we come to a stop at
24 Boles Creek is, they simply would like to prepay or have
25 a rent reduction for the rest of their term, and the

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1 Agency's fundamental, number one rule is quid pro quo of
2 a longer term or more affordable units in exchange for a
3 refinance.

4 MR. DAVI: I understand that. I just want to
5 make sure that everyone here knew it. I don't think that
6 solution is to reduce the rate change by 2 percent. I
7 think we need to have staff continue to do what they've
8 been doing. The letter says what we can do. And I want
9 to make sure everybody here doesn't think that we're
10 ignoring these people, because I don't see that a
11 2 percent rate change --

12 MS. PARKER: Margaret, do you know --

13 MR. DAVI: -- creates any cash flow.

14 MS. PARKER: -- do you know, the 50 percent
15 reduction that we talked about, the deposits, if they were
16 reduced, what that would have freed up for them
17 in capital?

18 MS. ALVAREZ: I think it's around 2,500 a month,
19 2,500 to 3,000. I'm not sure what they're paying on a
20 monthly basis.

21 CHAIR COURSON: Roughly 30,000 to 35,000 a year.

22 MS. ALVAREZ: Yeah, about there.

23 MR. SHINE: If you would reduce the interest
24 rate, it would be less of a benefit than \$30,000 a year.
25 That's a very good point.

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1 MR. DAVI: Actually, less than 20,000, to be
2 honest, at 9.15.

3 MR. SHINE: If, in fact, this is truly a cash
4 flow situation that we're discussing, that's the real
5 core of the issue, then the answer should be how to get
6 more cash out. And if you can reduce something you're
7 making payments on, then you get more cash because you
8 pay less. Now, maybe that's the way to do it, is to take
9 care of it on the expense side.

10 MS. ALVAREZ: Well, the other point I would like
11 to make is that for many years HUD has not allowed rent
12 increases, especially where rents are already over what
13 they consider over fair market rent. And that's one of
14 the things we will continue to look into on their behalf
15 also.

16 MR. SHINE: I understand that, but that's not
17 what I'm saying.

18 MS. ALVAREZ: Right.

19 MR. SHINE: I'm on a different track. I'm on
20 your track, that if there's a twenty or thirty or forty
21 thousand, or a hundred thousand, a million, whatever --
22 there's a number somewhere that you're feeling your cash
23 flow isn't fitting, that you want it to fit with, even
24 if -- no matter what you do is going to end up being cash
25 flow to you. I mean, if you own the property, that's what

1 you want.

2 You should take a look at the proposal and get
3 back to staff and see if maybe a reduction in what you
4 have to pay into the reserves or whatever could
5 accomplish the same goal on a dollar basis. That's just
6 a suggestion. You don't have to do anything, but it's a
7 thought you may want to consider.

8 MR. OWEN: A couple comments, is that a number
9 of years ago CHFA required us to do a long-term
10 maintenance reserve replacement calculation to go through
11 line item by line item on the entire 48 units. And we
12 did that. And that's where the replacement reserve
13 budget was created in order to accommodate that to the
14 life of the project, because it was anticipated that this
15 would be rolled over to a nonprofit low-income housing at
16 the end.

17 Those are the numbers that we're working from
18 today. This is an extraordinarily difficult environment
19 in which to maintain units. The weather is enormously
20 harsh in Weed, California. If you've ever been there,
21 it's windy and the winds are huge. And that's why the
22 replacement reserves are what they are; that's the way --
23 that money has been spent that way for 23 years now, and
24 we are continuing to pay it.

25 If we were enormously concerned about cash flow,

1 we would have been screaming our holy heads off about no
2 return to the investor for the last four years.

3 We've not taken a dime out of this project in
4 four years. We've put money into the project that we
5 have zero interest rate back. We've loaned money to the
6 project, and we don't get anything back on that. And to
7 suggest that we could solve the problem by reducing our
8 maintenance reserves might work in the short-term; but
9 then we end up with a project that is in a dilapidated
10 condition of which we don't want.

11 And I think that your staff will tell you that
12 the maintenance of this project is superb, and it has
13 always been written up very well.

14 So obviously, if we came to you and said a
15 rent reduction -- excuse me, an interest-rate reduction
16 would solve the problem, we must certainly believe that
17 our numbers are correct or we would not have made the
18 proposal. We would not have come here with a solution
19 that was not going to be a solution.

20 The problem was simple. We went eight years
21 without a rent increase. Eight years without a rent
22 increase. Now, how can you go through eight years of
23 inflation and not get one dime more, and expect the
24 project to pay? How can you do that? And the answer is,
25 you can't. It doesn't work. We don't get the annual

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1 rent adjustment factor because our mortgage rate is too
2 high, and our mortgage rate is too high because the
3 interest rate is too high. Not because of maintenance.
4 And that's the crux of the problem. And so we go in a
5 circle, and we can't get -- and I could tell you, there
6 has never been a serious discussion with this organization
7 about trying to solve our problems. There has been many
8 discussions with this organization, saying, "We can't do
9 that because the Board policy doesn't allow that," or "We
10 can't do that because HUD won't allow us to do that."

11 "Well, let's have a meeting with HUD and hear it
12 from HUD."

13 "Well, they're pretty busy. And they're --" you
14 know, and it never happens. It doesn't matter how many
15 times we requested that meeting with HUD. And it has
16 been in writing. It has been verbal. It's never
17 happened.

18 And you people are sitting here, thinking that
19 staff is doing all this stuff and trying to solve the
20 problem, and it's simply not true.

21 Thank you.

22 CHAIR COURSON: Thank you very much, Mr. Owen
23 and Mr. Dunlap.

24 Are there any other comments from the public?

25 *(No audible response)*

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CHAIR COURSON: Seeing none, our meeting will
stand adjourned.

(Proceedings concluded at 1:06 p.m.)

--oOo--

REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 22nd of January, 2007.

DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

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CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Eureka Family Housing
Eureka, Humboldt County, CA
CalHFA # 07-004 A

SUMMARY

This is a final commitment request for a tax-exempt Acquisition/Rehabilitation Loan in the amount of Three Million Three Hundred Seventy-Five Thousand Dollars (\$3,375,000), a tax-exempt Second Loan of One Million One Hundred Fifty Thousand Dollars (\$1,150,000), and a Third Loan of Three Hundred Five Thousand Dollars (\$305,000) from Earned Surplus, and a tax-exempt Permanent First Loan in the amount of Nine Hundred Forty Thousand Dollars (\$940,000). Security for the loans will be a 50-unit family apartment complex known as Eureka Family Housing, located at 615 W. Hawthorne, 1112 E Street, and 735 P Street in Eureka. Eureka California Family Housing, a limited partnership, whose managing general member is Eureka Family Housing LLC, with its sole member being Eureka Housing Development Corporation, will own the property, and Eureka Housing Development Corporation will be the sponsor.

Eureka Family Housing is an existing portfolio loan currently owned by the Housing Authority of the City of Eureka. The project was constructed in 1980 and will be an acquisition/rehabilitation of a one and two story, 50 unit walk-up townhouse family apartment complex located on three sites in Eureka. The project is 100% Section 8 and the initial 40-year term of its HAP contract will expire September 30, 2021. Fourteen (14) years remain on the existing HAP contract. The Borrower will seek a new HAP contract upon expiration. CalHFA loan terms and conditions may be modified by staff in the event that said approvals impact the transaction.

The project failed HUD's Real Estate Assessment Center's ("REAC") inspection on January 23, 2007 with a failing score. If the project is not rehabbed and meet HUD's standards for safe, decent, and affordable housing, the project can be at risk for losing Section 8 subsidy funds.

LOAN TERMS**Acquisition/Rehabilitation**

First Mortgage	\$3,375,000
Interest Rate	5.30%, variable
Term	12 Months, interest only
Financing	Tax-exempt
 Second Mortgage	 \$1,150,000
Interest Rate	5.30%
Term	14 years
Financing	Tax-exempt
 Third Mortgage	 \$305,000
Interest Rate	3.0%

Term	30 years
Financing	Earned Surplus

Permanent

First Mortgage	\$940,000
Interest Rate	5.30%
Term	30/15 year fixed, fully amortized *
Financing	Tax-exempt

Second Mortgage	\$1,150,000
Interest Rate	5.30%
Term	14 years
Financing	Tax-exempt

Third Mortgage	\$305,000
Interest Rate	3.0%

*If the HUD Section 8 subsidy is extended past the remaining 14 year term, the loan term will remain at 30 years. Otherwise, the loan is due and payable when the subsidy expires.

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

OTHER FINANCING

A Redevelopment Agency rehabilitation and permanent loan of \$500,000, with a rate of 3% and a term of 40 years, payable only from residual receipts. A Housing Authority carry back loan of \$2,400,000, with a rate of 3% and a term of 55 years, payable only from residual receipts.

HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

The original HAP contract was executed on January 8, 1981, for a term of 40 years. The HAP contract will expire on September 30, 2021. CalHFA is the Section 8 Contract Administrator.

Assignment of the HAP contract to the Borrower, any required modification to the HAP contract, and the general plan of financing, are all subject to the approval of the Department of Housing and Urban Development ("HUD").

On January 29, 2007, the borrower submitted its request to the San Francisco HUD office to approve the waiver of the current Section 8 rent limits to provide for the financing of needed rehabilitation. Section 8 rents would be increased 3.3% above normal limits. The San Francisco HUD office is recommending approval of the increase to the HUD Washington Central Office. A condition of CalHFA commitment approval is HUD's approval of the Section 8 rent increase for the remaining term of the HAP contract.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract.

PROJECT DESCRIPTION

Project Location

- The project is located in the northern portion of the City of Eureka, in Humboldt County.
- Highway 101 traverses north through Eureka and continues into Oregon, to Tillamook, and intersects with Highway 6 into Portland. Highway 299 travels east inland and conjuncts with Interstate 5 in Redding.
- Eureka is the county seat for Humboldt County. The two largest cities in the area are Eureka and Arcata. The two cities have contiguous boundaries adjacent to Arcata Bay, and combine to be the industrial, medical, financial, educational, governmental, commercial, and social center for the north coast of California.
- The sites are located at 735 P Street, 1112 E Street, and 615 W. Hawthorne Street in the northern section of the City of Eureka.
- All three sites are surrounded by single family and multifamily residential residences.
- The subject properties are located in an established area of Eureka. Commercial developments are located along major thoroughfares. The subject properties have average locations with respect to commercial services, thoroughfares, public transportation, and community services.
- The area is anticipated to experience limited growth in the foreseeable future.

Site

- All three sites are irregular in shape and are 1.10 (735 P Street), 0.65 (1112 E Street), 0.56 (615 W. Hawthorne Street) acres respectively in size.
- The sites are zoned RM2500 and RM1000, and are legally conforming. The subject and surrounding land uses are consistent with the zoning of the area.

Improvements

- Each property was built in 1980 and the total 50-units comprise one and two story walk-up and townhouses consisting of 12 one bedrooms, 27 two bedrooms, and 11 three bedrooms. The basic structure is wood siding and concrete foundation with pitched composition asphalt and single-pane glass windows. Access for all the units is through exterior stairwells or ground floor entrance. Each unit is served by wall mounted gas furnace heating.
- All the units are flat style units with the exception of 15 townhouse, two bedroom, two bath units, with sheet vinyl in the kitchen and bath areas and wall-to-wall carpet in the remaining areas. Each unit has a garbage disposal, gas range/oven, and refrigerator. Each unit is equipped with washer and dryer hook-ups. Individual hot water heaters are in each unit.
- The common area amenities include landscaped areas.
- The project offers 74 uncovered parking spaces. Street parking is also available.

PHYSICAL NEEDS ASSESSMENT / SCOPE OF WORK

- The project is in fair to average overall condition for a development of this type and in average condition when compared to other developments of similar type and age in the City of Eureka.

- The scope of rehabilitation work is as follows:
- **Shear Panel and Exterior Siding Replacement, \$1,150,000** – Removal and replacement of T1-11 siding w/Hardi-Plank. Replace shear panel at siding replacements.
- **Building and common areas, \$904,000** – parking area resurfacing (\$75,000), dual pane windows (\$180,000), Demolish building at E Street, build a new community building (\$120,000), exterior painting (\$117,000).
- **Residential Units, \$499,800** – cabinets (\$126,000), carpet and vinyl flooring (\$60,000), paint interior (\$102,000), appliances, water heaters, and gas wall heaters (\$50,000).
- The total amount of immediate rehabilitation is \$2,897,784 or \$57,955 per unit.
- Work is scheduled to commence no later than June 2007 and be completed within 12 months after commencement.

Off-site improvements

- No off-site improvements and/or costs are required.

Relocation

- The Eureka Housing Authority's Relocation Plan/Guide has been adopted from HUD's "HOME VI" program and addresses all relocation issues. The Housing Programs Compliance Officer for the Eureka Housing Authority will monitor compliance. The renovation will take place around the occupied units, with some temporary displacement (approximately 1-2 weeks) required. The borrower will make every effort to minimize the disruption to the project's family residents by relocating residents to a location within close proximity to the project. The borrower will comply with all state and federal regulations requiring temporary relocation, including assurance that all temporary relocation costs will be borne by the project and not by the tenant. The specific unit renovation such as window replacement, kitchen cabinets and carpeting and vinyl will require temporary displacement of the tenant. The Borrower will conduct tenant orientation meetings prior to the purchase of the property and before and during the rehabilitation period regarding the scope of work, timelines, and address any tenant issue or concerns regarding the project.

MARKET

Market Overview

The Primary Market Area (PMA) consists of a three-mile radius from the subject properties in the northern portion of the city of Eureka. It is estimated that 80+% of the tenant population will be from this area. The estimated PMA population is 38,219 persons (2006) and is expected to grow by 1.97% to 40,020 by 2011. There are 16,217 households within the PMA population, of which 50.2% are owners and 44.3 % are renters, and 5.5% are vacant.

Housing Supply and Demand

- The rental housing stock in the PMA is primarily comprised of average market rate apartments (1970-1980s) in good condition.

- Occupancy rate for market rate units as of December 2006 is 96.3%. LIHTC properties have an average occupancy rate of 100%, with waiting list ranging from six months to several years long.
- At the time of rehabilitation completion in 2008, there will be a projected total demand for 1,282 rental units targeting general households in the Eureka Market Area with incomes between 50% and 60% of AMI. Specifically, there will be a demand for 219 one bedroom, 574 two bedroom and 489 three bedroom units. Given this demand, the project would need to capture 3.9 percent of the income eligible renter households in the Primary Market Area.
- There are no new affordable or market rate housing currently planned within the PMA.

Estimated Lease-up Period

- The project is currently 100% leased and the proposed rehabilitation will not interfere with occupancy other than temporary displacement during the rehabilitation period.

ENVIRONMENTAL

An updated Phase I Environmental Assessment report was completed on January 12, 2007, by SHN Consulting Engineers and Geologists. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

A seismic evaluation is currently in process.

DEVELOPMENT TEAM

Borrower

Eureka California Family Housing, a limited partnership

- The non-profit Managing General Partner will be Eureka Family Housing LLC whose sole member is Eureka Housing Development Corporation, located in Eureka California.

Management Agent

Housing Authority of the City of Eureka

- The Housing Authority of the City of Eureka will manage the property. The Housing Authority of the City of Eureka has been in existence for 51 years providing affordable housing. Robert H. Morelli, Executive Director, who is certified as a Public Housing Manager (PHM), and is charged with the authority, responsibility and accountability of the management system. The Housing Authority of the City of Eureka operates 198 units of Public Housing. In 1976, by Article 34 Referendum vote of the citizens of Eureka, the Housing Authority of the City of Eureka was given authority to produce 250 units of affordable housing within the Eureka city limits. The subject is part of this referendum authority.
- Presently, both the Housing Authority of the City of Eureka and the Housing Authority of the County of Humboldt administer the Section 8 Choice Voucher Program which is

governed by Section 8 of the United States Housing Act of 1937, the Housing and Community Development Act of 1974, and the Quality Housing and Work Responsibility Act of 1998. In this program, staff administers 663 units for the Eureka program and 543 units for the Humboldt Count program.

ArchitectJoan Briggs, JMB Architecture

- Since acquiring her license in 1985 to practice Architecture, Ms. Briggs has established a successful practice including public, commercial, residential and retail projects in Ventura, Los Angeles, San Louis Obispo, Sacramento, and Humboldt Counties.
- She is providing consulting services for the Eureka Housing Authority that include design studies, producing construction and procurement bid documents, and providing construction management.

ContractorWilliam Cosby Construction

- The firm is located in Eureka, California. The construction firm has previously done work with the Housing Authority of the City of Eureka.

PROJECT SUMMARY

PROJECT NUMBER: 07-004-A

Final Commitment

Project: Eureka Family Housing
Location: 1112 E Street, 735 P Street, 615 W. Hawthorne
City: Eureka
County: Humboldt
Zip Code: 95503
Developer: Eureka Hsg Dev. Corporation
Partner: Same
Investor: Merritt Capital

Project Type: Existing
Occupancy: Family
Total Units: 50
Style Units: Stack/Flats
Elevators: NONE
Total Parking Covered: 74 / 0
No. of Buildings: 9
No. of Stories: 1 & 2
Residential Space: 47,940 sq. ft.
Office Space: 0 sq. ft.
Commercial Space: 0 sq. ft.
Gross Area: 47,940 sq. ft.
Land Area: 100,775 sq. ft.
Units per acre: 22

CalHFA Acquisition Financing	Amount	Rate	Term
CalHFA Acquisition/Rehab Financing	\$3,375,000	5.30%	1
CalHFA Second Mortgage	\$1,150,000	5.30%	14
CalHFA Earned Surplus Loan	\$305,000	3.00%	30

Permanent Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage	\$940,000	5.30%	30/15
CalHFA Bridge Loan	\$0	0.00%	0
Eureka Redevelopment (funded at acquisition)	\$500,000	3.00%	40
Eureka HA seller take-back (funded at acquisition)	\$2,400,000	3.00%	55
RFO (funded at acquisition)	\$33,289	0.00%	0
Existing Reserves (funded at acquisition)	\$57,835	0.00%	0
Source 7	\$0	0.00%	0
Source 8	\$0	0.00%	0
Source 9	\$0	0.00%	0
Source 10	\$0	0.00%	0
Source 11	\$0	0.00%	0
Source 12	\$0	0.00%	0
Income from Operations	\$0		
Developer Contribution	\$62,900		
Deferred Dev. Fee	\$0		
Tax Credit Equity (\$541,858 funded at acquisition)	\$3,081,821		

Construction Valuation		Appraisal	Value Upon Completion	
Investment Value	\$7,880,000	Appraisal Date: 01/07/07	Restricted Value	\$4,490,000
Loan / Cost	58%	Cap Rate: 5.50%	Perm. Loan / Cost	11%
Loan / Value	61%		Perm. Loan / Value	21%

CalHFA Fees and Reserve Requirements

CalHFA Loan Fees	Amount	Required Reserves	Amount
CalHFA Construction Loan Fee	\$33,938	Other Reserve	\$0
CalHFA Permanent Loan Fees	\$10,450	Replacement Resv. Initial Deposit	\$106,500
Other Fee	\$0	Repl. Reserve - Per Unit/ Per Yr	\$600
Construction Loan - Guarantees and Fees		CalHFA Operating Expense Reserve	\$45,913
Completion Guarantee Fee	\$0	Rent Up Reserve	\$0
Contractors Payment Bond	\$0	Other Reserve	\$6,250
Contractors Performance Bond	\$0	Transition Operating Reserve	\$0

Date: 2/21/2007

Senior Staff Date: 2/16/2007

UNIT MIX AND RENT SUMMARY

Eureka Family Housing

07-004-A

Total Unit Mix			
# of Units	Unit Type	# of Baths	Average Sq. Ft.
12	1 Bedroom Flat	1	685
27	2 Bedroom Flat	1	950-980
11	3 Bedroom Flat	1.5	1,235
	2 Bedroom Townhome	2	
	3 Bedroom Townhome	2	
	4 Bedroom Townhome	2.5	
50			

Number of Regulated Units By Agency							
Agency	35%	45%	50%	60%	80%	Unrestricted	Total
CalHFA			10				10
Tax Credits			10	35			50
Locality				50			50
HCD							
AHP							
Zoning							
Other			15				

Restricted Rents Compared to Average Market Rents					
Median Income Rent Levels	Units Restricted	Restricted Rents	Avg. Market Rate Rents	Dollars Difference	% of Market
One Bedroom			\$588		
35%	0	\$0		\$0	0%
50%	2	\$428		\$160	73%
50%	2	\$397		\$191	68%
60%	8	\$523		\$65	89%
80%	0	\$0		\$0	0%
Two Bedroom			\$817		
35%	0	\$0		\$0	0%
50%	3	\$510		\$307	62%
50%	6	\$510		\$307	62%
60%	18	\$624		\$193	76%
80%	0	\$0		\$0	0%
Three Bedroom			\$924		
35%	0	\$0		\$0	0%
50%	2	\$584		\$340	63%
50%	2	\$559		\$365	60%
60%	7	\$716		\$208	77%
80%	0	\$0		\$0	0%
Four Bedroom			\$0		
35%	0	\$0		\$0	0%
50%	0	\$0		\$0	0%
50%	0	\$0		\$0	0%
60%	0	\$0		\$0	0%
80%	0	\$0		\$0	0%

Sources and Uses of Funds

Eureka Family Housing

07-004-A

Final Commitment

SOURCES OF FUNDS:	Funds in during	Funds in at	Total Development Sources		
	Construction (\$)	Permanent (\$)	Total Sources of Funds (\$)	Sources per Unit	%
CalHFA Acquisition/Rehab Financing	3,375,000				
Construction Only Source 2	-				
Construction Only Source 3	-				
CalHFA First Mortgage		940,000	940,000	18,800	11%
CalHFA Second Mortgage	1,150,000		1,150,000	23,000	13%
Existing Reserves	57,835	-	57,835	1,157	1%
RFO	33,289	-	33,289	666	0%
Eureka Redevelopment	500,000	-	500,000	10,000	6%
Eureka HA seller take-back	2,400,000	-	2,400,000	48,000	28%
CalHFA Earned Surplus Loan	305,000	-	305,000	6,100	4%
Source 7	-	-	-	-	0%
Source 8	-	-	-	-	0%
Source 9	-	-	-	-	0%
Source 10	-	-	-	-	0%
Source 11	-	-	-	-	0%
Source 12	-	-	-	-	0%
Income from Operations	-	-	-	-	0%
Developer Contribution	-	62,900	62,900	1,258	1%
Deferred Developer Fee	-	-	-	-	0%
Tax Credit Equity	541,858	2,539,963	3,081,821	61,636	36%
Total Sources	8,362,982	3,542,863	8,530,845	170,617	100%
(Gap)/Surplus	(0)	0	0		

USES OF FUNDS:	Construction (\$)	Permanent (\$)	Total Development Costs		
			Total Uses of Funds (\$)	Cost per Unit	%
<u>LOAN PAYOFFS & ROLLOVERS</u>					
Construction Loan payoffs		\$3,375,000			
<u>ACQUISITION</u>					
Land value	570,000	-	570,000	11,400	7%
Prepayment Penalty	-	-	-	-	0%
Legal - Acquisition Related Fees	-	-	-	-	0%
Subtotal - Land Cost / Value	570,000	-	570,000		
Existing Improvements Value	3,730,000	-	3,730,000	74,600	44%
Off-Site Improvements	-	-	-	-	0%
Other	-	-	-	-	0%
Total Acquisition	4,300,000	-	4,300,000	86,000	50%
<u>REHABILITATION</u>					
Site Work	150,000	-	150,000	3,000	2%
Rehab to Structures	2,350,000	-	2,350,000	47,000	28%
General Requirements	125,000	-	125,000	2,500	1%
Contractors Overhead	50,000	-	50,000	1,000	1%
Contractors Profit	175,000	-	175,000	3,500	2%
Contractor's Bond	-	-	-	-	0%
General Liability Insurance	-	-	-	-	0%
Environmental Mitigation Expense	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Rehabilitation	2,850,000	-	2,850,000	57,000	33%
<u>RELOCATION EXPENSES</u>					
Relocation Expense	75,000	-	75,000	1,500	1%
Relocation Compliance Monitoring	-	-	-	-	0%
Total Relocation	75,000	-	75,000	1,500	1%

(Continued on Next 2 Pages)

USES OF FUNDS (Cont'd):	Construction (\$)	Permanent (\$)	Total Development Costs		
			Total Uses of Funds (\$)	Cost per Unit per Unit	%
<u>NEW CONSTRUCTION</u>					
Site Work	-	-	-	-	0%
Structures (Hard Costs)	-	-	-	-	0%
General Requirements	-	-	-	-	0%
Contractors Overhead	-	-	-	-	0%
Contractors Profit	-	-	-	-	0%
Contractor's Perf. & Pymt Bond	-	-	-	-	0%
General Liability Insurance	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total New Construction	-	-	-	-	0%
<u>ARCHITECTURAL & ENGINEERING</u>					
Architectural Design	40,000	-	40,000	800	0%
Architect's Supv during Construction	30,000	-	30,000	600	0%
Total Architectural	70,000	-	70,000	1,400	1%
Engineering Expense	10,000	-	10,000	200	0%
Engineers Supv. during Construction	-	-	-	-	0%
ALTA Survey	5,000	-	5,000	100	0%
Total Engineering & Survey	15,000	-	15,000	300	0%
<u>CONSTRUCTION LOAN COSTS</u>					
Construction Loan Interest	94,804	-	94,804	1,896	1%
CalHFA Construction Loan Fee	33,938	-	33,938	679	0%
ICAC Fees	-	-	-	-	0%
CalHFA Outside Legal Counsel Fees	-	-	-	-	0%
Other Lender Req'd Legal Fees	-	-	-	-	0%
Title and Recording fees	10,000	-	10,000	200	0%
CalHFA Req'd Inspection Fees	18,000	-	18,000	360	0%
Other Req'd Inspection Fees	-	-	-	-	0%
Prevailing Wage Monitoring Expense	-	-	-	-	0%
Taxes & Insurance during construction	15,000	-	15,000	300	0%
Other	-	-	-	-	0%
Cost for Completion Guarantee	-	-	-	-	0%
Other	-	-	-	-	0%
Total Construction Loan Expense	171,741	-	171,741	3,435	2%
<u>PERMANENT LOAN COSTS</u>					
CalHFA Perm Loan Fees	-	10,450	10,450	209	0%
CalHFA Bridge Loan Fees	-	-	-	-	0%
CalHFA Loan Application Fee	500	-	500	10	0%
Other Lender Perm. Loan Fees	-	-	-	-	0%
Title and Recording	-	5,000	5,000	100	0%
Perm. Bridge Loan Interest Expense	-	-	-	-	0%
Bond Origination Guarantee Fee	-	-	-	-	0%
Tax Exempt Bond Allocation Fee	-	-	-	-	0%
Other	-	-	-	-	0%
Total Permanent Loan Expense	500	15,450	15,950	319	0%
<u>LEGAL FEES</u>					
Borrower Legal Fee	30,000	-	30,000	600	0%
Other	115,000	-	115,000	2,300	1%
Total Attorney Expense	145,000	-	145,000	2,900	2%

USES OF FUNDS (Cont'd)	Construction (\$)	Permanent (\$)	Total Development Costs		
			Permanent of Funds (\$)	Per Unit per Unit	%
<u>CONTRACT / REPORT COSTS</u>					
Appraisal	20,000	-	20,000	400	0%
Market Study	12,000	-	12,000	240	0%
Physical Needs Assessment	10,000	-	10,000	200	0%
HUD Risk Share Environ. Review	-	-	-	-	0%
CalHFA EQ Seismic Review Fee	3,200	-	10,000	200	0%
Environmental Phase I / II Reports	10,000	-	10,000	200	0%
Soils / Geotech Reports	-	-	-	-	0%
Asbestos / Lead-based Paint Report	6,800	-	-	-	0%
Noise/Acoustical/Traffic Study Report	-	-	-	-	0%
Termite/Dry Rot Report	1,200	-	1,200	24	0%
Other	-	-	-	-	0%
Total Contract Costs	63,200	-	63,200	1,264	1%
<u>CONTINGENCY</u>					
Hard Cost Contingency	292,500	-	292,500	5,850	3%
Soft Cost Contingency	50,000	-	50,000	1,000	1%
Total Contingency	342,500	-	342,500	6,850	4%
<u>RESERVES</u>					
CalHFA Operating Expense Reserve	-	45,913	45,913	918	1%
Construction Defects Reserve	-	-	-	-	0%
Transition Operating Reserve	-	-	-	-	0%
Replacement Resv. Initial Deposit	-	106,500	106,500	2,130	1%
Other	-	-	-	-	0%
Total Reserves	-	152,413	152,413	3,048	2%
<u>OTHER</u>					
CTCAC App/Alloc/Monitor Fees	43,200	-	43,200	864	1%
Local Permit Fees	50,000	-	50,000	1,000	1%
Local Development Impact Fees	-	-	-	-	0%
Other Local Fees	-	-	-	-	0%
Advertising & Marketing Expenses	-	-	-	-	0%
1st Year Taxes & Insurance	-	-	-	-	0%
Furnishings	30,000	-	30,000	600	0%
Final Cost Audit Expense	10,000	-	10,000	200	0%
Miscellaneous Admin Fees	1,841	-	1,841	37	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Other Expenses	135,041	-	135,041	2,701	2%
SUBTOTAL PROJECT COSTS	8,167,982	3,542,863	8,335,845	166,717	98%
<u>DEVELOPER COSTS</u>					
Developer Overhead/Profit (5% Acq.)	-	-	-	-	0%
Developer Overhead/Profit (NC/Rehab)	-	-	-	-	0%
Consultant / Processing Agent	40,000	-	40,000	800	0%
Project Administration	80,000	-	80,000	1,600	1%
Broker Fees to a related party	-	-	-	-	0%
Construction Mgmt. Oversight	75,000	-	75,000	1,500	1%
Other	-	-	-	-	0%
Total Developer Fee / Costs	195,000	-	195,000	3,900	2%
Total Costs	8,362,982	3,542,863	8,530,845	170616.897	100%

Annual Operating Budget

Eureka Family Housing

Final Commitment

INCOME:	\$ Amount	Per Unit	% of Total
Total Rental Income	\$471,024	\$9,420	99.50%
Laundry	\$2,350	\$47	0.50%
Other Income	\$0	\$0	0.00%
Gross Potential Income (GPI)	\$473,374	\$9,467	100.00%
Less:			
Vacancy Loss	\$14,248	\$285	3.10%
Effective Gross Income	\$459,126	\$9,183	

EXPENSES:	Total Cost	Per Unit	% of Total
Payroll	\$86,705	\$1,734	33.37%
Administrative	\$19,000	\$380	7.31%
Management fee	\$25,800	\$516	9.93%
Utilities	\$22,100	\$442	8.50%
Operating and Maintenance	\$50,600	\$1,012	19.47%
Insurance and Business Taxes	\$23,942	\$479	9.21%
Locality Compliance Monitoring Fee	\$0	\$0	0.00%
Other	\$1,700	\$34	0.65%
Subtotal Expenses	\$229,847	\$4,597	88.45%
Replacement Reserves	\$30,000	\$600	11.55%
Taxes & Assessments	\$0	\$0	0.00%
Total Expenses	\$259,847	\$5,197	100.00%
Financial Expenses			
CalHFA First Mortgage	\$62,638	\$1,253	
CalHFA Second Mortgage	\$116,526	\$2,331	
Other Required Debt Service	\$0	\$0	

NET OPERATING INCOME	\$20,115	\$402
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Cash Flow **Final Commitment** **CalHFA Project Number: 07-004-A** **Eureka Family Housing**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
RENTAL INCOME										
Affordable Rents	347,448	356,134	365,038	374,163	383,518	393,106	402,933	413,006	423,332	433,915
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Rental Subsidies	123,576	126,048	128,568	131,140	133,763	136,438	139,167	141,950	144,789	147,685
Rental Subsidy Increases	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Unrestricted Units	0	0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	471,024	482,182	493,606	505,303	517,280	529,543	542,100	554,956	568,121	581,600

OTHER INCOME										
Laundry	2,350	2,397	2,445	2,494	2,544	2,595	2,647	2,700	2,754	2,809
Other Income	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
TOTAL OTHER INCOME	2,350	2,397	2,445	2,494	2,544	2,595	2,647	2,700	2,754	2,809
GROSS POTENTIAL INCOME	473,374	484,579	496,051	507,798	519,824	532,138	544,747	557,656	570,874	584,409

VACANCY ASSUMPTIONS										
Affordable (Blended Average)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Rental Subsidy Income	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Unrestricted Units	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Laundry & Other Income	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
LESS: VACANCY LOSS	14,248	14,585	14,930	15,284	15,646	16,016	16,395	16,784	17,181	17,588

EFFECTIVE GROSS INCOME	459,126	469,994	481,121	492,514	504,179	516,122	528,351	540,873	553,693	566,820
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OPERATING EXPENSES										
Expenses	229,847	237,892	246,218	254,836	263,755	272,987	282,541	292,430	302,665	313,259
Annual Expense Increase	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Taxes and Assessments	0	0	0	0	0	0	0	0	0	0
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Replacement Reserve	30,000	30,300	30,603	30,909	31,218	31,530	31,846	32,164	32,486	32,811
Percentage Increase Yearly	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
TOTAL EXPENSES	259,847	268,192	276,821	285,745	294,973	304,517	314,387	324,594	335,151	346,069

NET OPERATING INCOME	199,279	201,802	204,300	206,769	209,205	211,605	213,965	216,278	218,542	220,751
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DEBT SERVICE										
CalHFA - 1st Mortgage	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638
CalHFA - Bridge Loan	0	0	0	0	0	0	0	0	0	0
CalHFA - 2nd Mortgage	116,526	116,526	116,526	116,526	116,526	116,526	116,526	116,526	116,526	116,526
Earned Surplus	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
Total D/S	179,164									

DSCR on Total Income and 1st Mtg	1.11	1.13	1.14	1.15	1.17	1.18	1.19	1.21	1.22	1.23
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Excess Cash	20,115	22,638	25,136	27,605	30,041	32,441	34,801	37,114	39,378	41,587
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Cash Flow CalHFA Project Number: 07-004-A **Eureka Family Housing**

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
RENTAL INCOME										
Affordable Rents	444,763	455,982	467,279	478,961	490,935	503,208	515,789	528,683	541,900	555,448
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Rental Subsidies	150,638	153,651	156,724	159,859	163,056	0	0	0	0	0
Rental Subsidy Increases	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Unrestricted Units	0	0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	595,401	609,533	624,003	638,820	653,991	668,208	683,789	699,366	715,800	732,896

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
OTHER INCOME										
Laundry	2,865	2,922	2,981	3,040	3,101	3,163	3,227	3,291	3,357	3,424
Other Income	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
TOTAL OTHER INCOME	2,865	2,922	2,981	3,040	3,101	3,163	3,227	3,291	3,357	3,424

GROSS POTENTIAL INCOME	598,266	612,456	626,984	641,860	657,092	668,372	687,016	702,657	719,157	736,320
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	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Rental Subsidy Income	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Unrestricted Units	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Laundry & Other Income	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
LESS: VACANCY LOSS	18,005	18,432	18,869	19,317	19,775	20,247	20,725	21,208	21,696	22,189

EFFECTIVE GROSS INCOME	580,261	594,023	608,115	622,544	637,317	648,125	666,291	681,449	697,461	714,131
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	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
OPERATING EXPENSES										
Expenses	324,223	335,570	347,315	359,471	372,053	385,075	398,552	412,502	426,939	441,882
Annual Expense Increase	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Taxes and Assessments	0	0	0	0	0	0	0	0	0	0
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Replacement Reserve	33,139	33,470	33,805	34,143	34,484	34,829	35,177	35,529	35,884	36,243
Percentage Increase Yearly	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
TOTAL EXPENSES	357,361	369,040	381,120	393,614	406,537	419,904	433,730	448,031	462,824	478,125

NET OPERATING INCOME	222,900	224,983	226,995	228,929	230,780	228,221	232,561	233,418	234,637	235,906
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	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
DEBT SERVICE										
CalHFA - 1st Mortgage	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638
CalHFA - Bridge Loan	0	0	0	0	0	0	0	0	0	0
CalHFA - 2nd Mortgage	116,526	116,526	116,526	116,526	116,526	116,526	116,526	116,526	116,526	116,526
Earned Surplus	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
Total D/S	179,164									

DSCR on Total Income and 1st Mtg	1.24	1.26	1.27	1.28	1.29	1.28	1.27	1.26	1.25	1.24
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Excess Cash	43,736	45,819	47,831	49,765	51,616	(1,489)	(3,304)	(5,294)	(7,468)	(9,835)
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Cash Flow **CalHFA Project Number: 07-004-A** **Eureka Family Housing**

	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
RENTAL INCOME										
Affordable Rents	569,334	583,567	598,157	613,110	628,438	644,149	660,253	676,759	693,678	711,020
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Rental Subsidies	0	0	0	0	0	0	0	0	0	0
Rental Subsidy Increases	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Unrestricted Units	0	0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	569,334	583,567	598,157	613,110	628,438	644,149	660,253	676,759	693,678	711,020

OTHER INCOME										
Laundry	3,493	3,562	3,634	3,706	3,780	3,856	3,933	4,012	4,092	4,174
Other Income	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
TOTAL OTHER INCOME	3,493	3,562	3,634	3,706	3,780	3,856	3,933	4,012	4,092	4,174

GROSS POTENTIAL INCOME	572,827	587,130	601,790	616,817	632,219	648,005	664,186	680,771	697,770	715,194
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VACANCY ASSUMPTIONS										
<i>Affordable (Blended Average)</i>										
Rental Subsidy Income	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Unrestricted Units	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Laundry & Other Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
LESS: VACANCY LOSS	28,641	29,356	30,090	30,841	31,611	32,400	33,209	34,039	34,889	35,760

EFFECTIVE GROSS INCOME	544,185	557,773	571,701	585,976	600,608	615,605	630,977	646,733	662,882	679,434
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OPERATING EXPENSES										
Expenses	457,348	473,355	489,923	507,070	524,817	543,186	562,197	581,874	602,240	623,318
Annual Expense Increase	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Taxes and Assessments	0	0	0	0	0	0	0	0	0	0
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Replacement Reserve	36,606	36,972	37,341	37,715	38,092	38,473	38,858	39,246	39,639	40,035
Percentage Increase Yearly	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
TOTAL EXPENSES	493,954	510,327	527,264	544,785	562,909	581,659	601,055	621,121	641,879	663,353

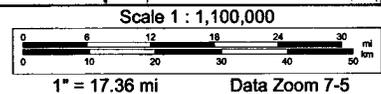
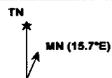
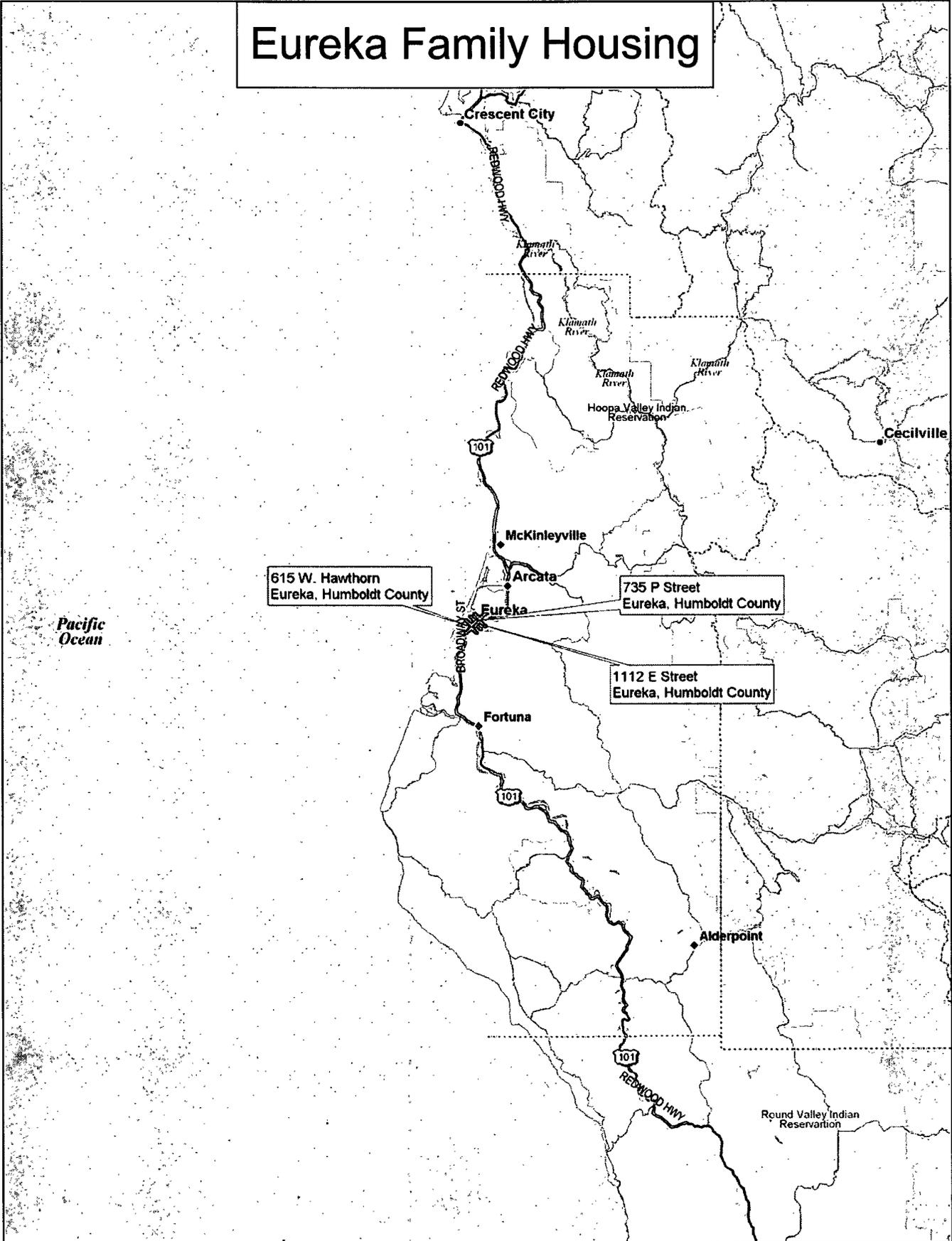
NET OPERATING INCOME	50,232	47,446	44,437	41,191	37,698	33,946	29,922	25,612	21,003	16,081
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DEBT SERVICE										
CalHFA - 1st Mortgage	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638	62,638
CalHFA - Bridge Loan	0	0	0	0	0	0	0	0	0	0
CalHFA - 2nd Mortgage	0	0	0	0	0	0	0	0	0	0
Earned Surplus	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
Total D/S	62,638									

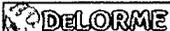
DSCR on Total Income and 1st Mtg	0.80	0.76	0.71	0.66	0.60	0.54	0.48	0.41	0.34	0.26
Excess Cash	(12,407)	(15,192)	(18,202)	(21,447)	(24,940)	(28,692)	(32,717)	(37,026)	(41,635)	(46,557)

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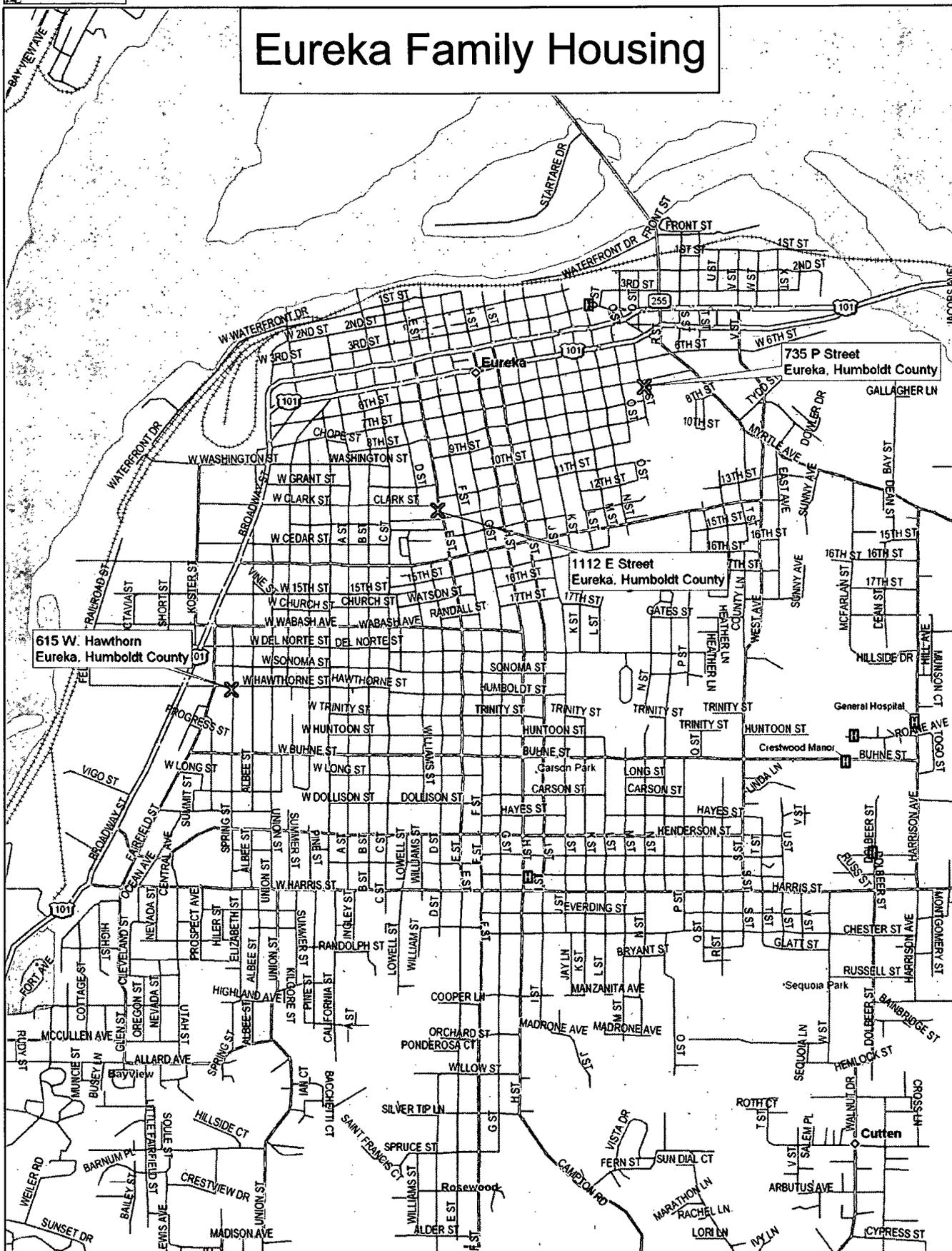
Eureka Family Housing



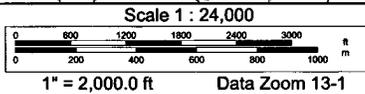
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Eureka Family Housing



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RESOLUTION 07-07

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Eureka California Family Housing, a limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in Eureka, Humboldt County, California, to be known as Eureka Family Housing (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

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

WHEREAS, on January 17, 2007, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

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

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

<u>PROJECT NUMBER</u>	<u>DEVELOPMENT NAME/ LOCALITY</u>	<u>NUMBER OF UNITS</u>	<u>MORTGAGE AMOUNT</u>
07-004-A	Eureka Family Housing	50	\$3,375,000 1 st Mortgage \$ 940,000 Permanent \$1,150,000 2 nd Mortgage \$ 305,000 3 rd Mortgage

1 Resolution 07-07

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5 2. The Executive Director may modify the terms and conditions of the loans or
6 loans as described in the Staff Report, provided that major modifications, as defined below,
7 must be submitted to this Board for approval. "Major modifications" as used herein means
8 modifications which either (i) increase the total aggregate amount of any loans made pursuant to
9 the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive
10 Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily
11 Programs of the Agency, adversely change the financial or public purpose aspects of the final
12 commitment in a substantial way.

13

14 I hereby certify that this is a true and correct copy of Resolution 07-07 adopted at a duly
15 constituted meeting of the Board of the Agency held on March 8, 2007 at Sacramento,
16 California.

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ATTEST: _____

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Secretary

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RESOLUTION 07-08

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RESOLUTION APPROVING REVISED 2006-2007 OPERATING BUDGET

WHEREAS, the Board of Directors of the California Housing Finance Agency (the "Board") has previously approved the 2006-2007 operating budget of the California Housing Finance Agency; and

WHEREAS, the Board has reviewed proposed amendments and revisions to the 2006-2007 operating budget of the Agency,

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

- 1. The revised and amended 2006-2007 operating budget of the California Housing Finance Agency, as attached hereto, is hereby approved.

I hereby certify that this is a true and correct copy of Resolution 07-08 adopted at a duly constituted meeting of the Board of Directors of the Agency held on March 8, 2007, at Sacramento, California.

ATTEST: _____
Secretary

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