CalHFA BOARD OF DIRECTORS

Wednesday, May 10, 2007

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

9:30 a.m.

1. Roll Call.

2. Approval of the minutes of the March 8, 2007 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action relative to final loan commitment for the following projects: (Laura Whittall-Scherfee)

NUMBER	DEVELOPMENT	LOCALITY	UNITS
06-079-A/N	Parkview Apartments	Sacramento/ Sacramento	97

NUMBER	DEVELOPMENT	LOCALITY	UNITS
07-005-A/N	Yosemite Manor	Madera/Madera	76

5. Discussion, recommendation and possible action relative to an additional final loan commitment for the following project: (Kathy Weremiuk/Edwin Gipson)

NUMBER	DEVELOPMENT	LOCALITY	UNITS
TBD	Bay Area Housing Plan	Bay Area Counties	71

6. Discussion, recommendation and possible action relative to the adoption of a resolution approving the Five-Year Business Plan for fiscal years 2007/2008 to 2011/2012. (Jerry Smart; Charles McManus; Laura Whittall-Scherfee/Edwin Gipson; Doug Smoot; Bruce Gilbertson)

NOTES

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

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be July 5, 2007, at the Hyatt Regency Sacramento, Sacramento, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

ORIGINAL

Hyatt Regency Sacramento
1209 L Street
Sacramento, California

Thursday, March 8, 2007
10:12 a.m. to 2:00 p.m.

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

05/10/2007

Attest:

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

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

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A P P E A R A N C E S

Board of Directors Present

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

PETER N. CAREY
President/CEO
Self-Help Enterprises

JEFF DAVI
for Dale E. Bonner, 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

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

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

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

A P P E A R A N C E S

Board of Directors Present
Continued

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

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Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

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

THOMAS C. HUGHES
General Counsel

JIM LISKA
Multifamily Program

CHARLES K. McMANUS
Director
Mortgage Insurance Services

JOJO OJIMA
Office of the General Counsel

JACKLYNNE RILEY
Director of Administration

GERALD F. SMART
Chief, Homeownership Programs

DOUG SMOOT
Chief, Special Lending Programs

A P P E A R A N C E S

Participating CalHFA Staff:
Continued

STEVE SPEARS
Chief Deputy Director

KATHY WEREMIUK
Housing Finance Officer
Multifamily Programs

LAURA WHITTALL-SCHERFEE
Housing Finance Chief - Sacramento
Multifamily Programs

--o0o--

PUBLIC TESTIMONY

GUSTAVO LAMANNA
Attorney at Law
Kane, Ballmer & Berkman
515 S. Figueroa Street, Suite 1850
Los Angeles, California 90071

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BE IT REMEMBERED that on Thursday, March 8,2007, commencing at the hour of 10:12 a.m., at the Hyatt Regency Sacramento, 1209 L Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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(The following proceedings commenced with Ms. Galante absent from the hearing room.)

CHAIR COURSON: I'll call the meeting to order.

--oOo--

Item 1: Roll Call

CHAIR COURSON: I apologize for our late start, but we were waiting for a quorum. We now have a quorum, so we will call the roll.

MS. OJIMA: Mr. Davi for Mr. Bonner?

MR. DAVI: Here.

MS. OJIMA: Thank you.

Mr. Carey?

MR. CAREY: Here.

MS. OJIMA: Mr. Czuker?

(No audible response)

MS. OJIMA: Ms. Galante?

(No audible response)

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes. Here.

MS. OJIMA: Thank you.

Mr. Pavao for Mr. Lockyer?

MR. PAVAO: Here.

MS. OJIMA: Mr. Morris?

(No audible response)

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

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

MS. ROBERTS: Here.

MS. OJIMA: Mr. Genest?

(No audible response)

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Here.

MS. OJIMA: We have a quorum.

CHAIR COURSON: Okay, we have a quorum.

--oOo--

Item 2. Approval of the Minutes of the January 18, 2007, Board of Directors Meeting

CHAIR COURSON: The first matter of business is the approval of the minutes of our January 18th Board of Directors meeting. Those are in the directors' agenda book.

Is there a motion to approve the minutes?

MR. SHINE: So moved.

CHAIR COURSON: Mr. Shine moves.

Is there a second?

MR. PAVAO: Second.

CHAIR COURSON: Mr. Pavao seconds.

Is there any discussion of the minutes?

(No audible response)

CHAIR COURSON: Seeing none, we will call the roll.

MS. OJIMA: Thank you.

Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: The minutes have been approved.

CHAIR COURSON: Okay, thank you.

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Item 3. Chairman/Executive Director Comments

CHAIR COURSON: As part of my Chairman Comments today, I want to focus on really one item. As we discussed at our last Board meeting, the Board and various other individuals had received a memorandum from the Coalition of Concerned CalHFA Employees, calling themselves the CCCE. And I reported to the Board that, upon receiving that, I had reviewed it and retained outside counsel from Seyfarth Shaw, Mr. Mark Van Brussel, to review three of the specific allegations that were contained in that memorandum.

Subsequent to that, I have sent to the Board, all the members of the Board, Mr. Van Brussel's report, and you have that with you.

And I will say that that report, dealing with those allegations and specifically the executive director, as I said in my cover letter to you, is a confidential report, since it does deal with an individual, and stays confidential, unless that individual agrees to allow the information in the report to become public.

MS. PARKER: Mr. Chairman, since the person that is accused of these allegations in the report is myself, I would, for the record, like to waive my confidentiality rights and make the document public and available for any and all who would want to read it.

Thank you.

CHAIR COURSON: All right, thank you.

And I know that the Board members do have another copy of that letter, just for your own edification.

But, here, Mr. Davi, I'll give you the report.

MR. DAVI: Actually, I've got a copy of the letter.

CHAIR COURSON: Yes. We just copied it again. I think additional copies can be made available for those who wish to see one.

MR. DAVI: Okay, thank you.

CHAIR COURSON: Following on that, I believe two days ago, I received -- and to my understanding, other members of the Board received -- a second memorandum from the same group. And in that memorandum, which is three pages long and contains 21 questions, there are comments about potential conflicts of interest between members of the Board and their role as a director of the Board, versus their other activities.

Our general counsel -- and you'll see in front of you -- has prepared a memorandum entitled "The subject of conflict of interest issues raised in the March 2nd, 2007, memo."

And I'll let counsel speak to that himself, but he was requested and did put together a memo, briefing memo for the Board, clarifying what are conflicts of interest and what is permitted activity, to respond to allegations that were set forth in the memorandum that we received.

Mr. Hughes, do you want to make a comment on that?

MR. HUGHES: Yes, Mr. Chairman, thank you.

I'd only say that my intent in the memo is to give the Board members the legal background on the alleged or implied -- expressed or implied allegations in that memo.

If any Board member has a specific question, my recommendation is that they call me and we can discuss it. And if there's more general concern or issues, we could, consistent with the open meetings law, find a way to deal with that.

Right now, it's structured as an attorney-client privileged document, and we can discuss it in some other manner consistent with the open meetings law. But it's pretty self-explanatory and really isn't particularly --

CHAIR COURSON: Yes. I think the Board should read that and take that in connection with some of the questions that were raised in the memo to gather some comfort.

(Ms. Galante entered the hearing room.)

CHAIR COURSON: Having said that, Mr. Morris, who is not with us today, did phone our general counsel, Mr. Hughes. And you'll see another memorandum in front of you, I think sort of summarizing that phone conversation. And basically, Mr. Morris had suggested that the Board take the second memorandum and refer it to the Audit Committee for their review.

MR. HUGHES: Yes, that's correct, Mr. Chairman. Director John Morris called me on Tuesday, asking that the memo be referred to the Audit Committee. I told Mr. Morris that I could relay that request to the Board in open session today. However, having received this only two days ago, there is nothing agendized for this meeting; and the proper procedure, if the Board wanted to follow up on that, would be to place it on the agenda for a later meeting.

CHAIR COURSON: So I guess we can't -- since it's not on the agenda today -- I'm sorry, Mr. Davi?

MR. DAVI: I just have a question for clarification. Last month, in January, I think is when you suggested that the attorney review the first letter. That wasn't on the agenda, to my knowledge. Could we take that kind of action, just simply refer to this attorney again to review it, keep it in the same place?

CHAIR COURSON: Actually, Mr. Davi, at the last meeting, by the time of the last meeting, I, as Chair, had taken the prerogative of already referring it to counsel for their review.

MR. HUGHES: Right.

The suggestion, I think, that Mr. Morris made, was that the Board make a decision collectively to refer this to the Audit Committee. And it seems to me that the proper procedure for that should be to agendize it so there can be a full discussion if the Board chooses to do that.

MR. DAVI: Okay, I was just trying to be consistent with what you did last time. But then I guess if that's the better way to proceed, we can agendize it for next month.

CHAIR COURSON: Well, the Board can proceed how they choose. I mean, Mr. Morris's suggestion is that the Board take the action to refer it.

The question will be whether we want to put it on our next agenda for discussion and consideration or not. And I think that's a -- I assume, Counsel, that's a decision we can make today, whether to agendize it for our next meeting, if anybody so cares.

MR. HUGHES: I think any director can always request that something be put on the agenda.

CHAIR COURSON: Okay. Ms. Parker?

MS. PARKER: Just a comment, Mr. Chairman. And I certainly don't want to make a comment relative to the substance of either of the letters.

I think when we saw the first letter, and our discussion, my discussion with you raised the concern that there were issues in there that, frankly, in the first letter were fundamentally issues of fraud and felony violations. And it was certainly that -- I think that was the reason why John wanted to move so quickly about having it be reviewed by an independent legal firm.

That review cost the Agency $50,000.

I think -- I don't know from the standpoint of the ongoing nature of these letters, but going where there is the ability for us to do it in a manner that creates for the Board the comfort of some independence. However, I also just want to make sure that the Board is aware of the expenditure of funds associated with the outside counsel doing this work, and take all of those things into consideration of a way to be able to look at this but be mindful of how many letters could be sent and the dollars associated with it.

CHAIR COURSON: Mr. Carey?

MR. CAREY: By the way, Terri, I certainly appreciate your openness in self-disclosing the previous response. It helps to clear up an awful lot for anybody that might have questions.

I think it's important that we not wind up in a situation where we have a monthly letter that needs to be referred to an outside counsel.

And I will say, just for the record, that while I obviously take the public responsibility as a Board member very seriously, I'm dismayed by the very personal and sort of scurrilous tone of the memos we're getting. I don't think they, in themselves, indicate a very high regard for public service. And so that aside, I think we need to follow the appropriate steps in looking at any issues that do have substance.

And I think that the conflict of interest issues are important. Historically and traditionally, a Board's first fallback and guide in that issue is counsel to the Board, and that's Mr. Hughes. And so I would be guided primarily by his wisdom and recommendations on following up on the conflict-of-interest issues.

Secondarily, it becomes an issue for the individuals involved, and that's potentially an FPPC issue, or whatever, for them to resolve.

But I don't have the exact details of that memo in my mind, because I just had a chance to glance at it.

But to the extent it's conflict-of-interest issues and it involves the Board, I think that our first go is to rely on our own counsel.

CHAIR COURSON: Thank you. And I think Mr. Hughes has -- that's the memo -- you can take a look at the memo he's got.

I think the way that -- my suggestion is that, since this isn't on the agenda to discuss, that we should -- we'll move on; and if a Board member specifically requests that it be placed on the agenda of our next meeting, we'll do so.

We want to have directors and members of the Board have the opportunity to have any item on the agenda to discuss; so if someone specifically requests that or renews a request we have, we'll put it on the next agenda.

MR. DAVI: That request can come at any time, Mr. Chairman?

CHAIR COURSON: Yes.

It must come -- we have to issue our agendas ten days before our next meeting.

MR. DAVI: No problem. I understand.

CHAIR COURSON: Be it a regular meeting or a special meeting.

MR. DAVI: Okay.

CHAIR COURSON: Okay? That concludes my chairman's remarks.

MR. SHINE: Mr. Chairman?

CHAIR COURSON: Yes, Mr. Shine?

MR. SHINE: We do have a request from a Board member that that be done, albeit he can't be here personally. That's why he called counsel.

How do you deal with that? To make a request, do you have to be here in person?

CHAIR COURSON: No.

If Mr. Morris, I think, has made a specific request, we put it on the agenda?

MR. HUGHES: Yes -- well, Mr. Morris didn't request that it be put on the agenda, because by the time I got the call on Tuesday, it was too late to reagendize this meeting.

And I indicated to Mr. Morris that I would relay to the Board his desire to have the Board refer this to an audit committee; but that because it was not agendized, it could not -- the Board could not take action at this meeting. And I think the question for the Board is whether any Board member wants to agendize it for a forthcoming meeting.

CHAIR COURSON: I'll suggest that -- I'll ask Mr. Hughes to call Mr. Morris and tell him we've introduced the topic, and specifically ask him if he wants to put it on the agenda for our next meeting, for discussion of the Board; and if he does, we will.

MR. HUGHES: Yes, and, obviously, Mr. Morris can choose himself to place this on the agenda.

CHAIR COURSON: Right, but I think we should ask Mr. Morris. And if he says, "Yes, I'd like to have it on the agenda," let's put it on the agenda. Or if anybody else makes the decision they want to have it on the agenda, we'll put it on the agenda for the next meeting.

Okay, that concludes my report.

MS. PARKER: Mr. Chairman, I guess that means I'm up.

CHAIR COURSON: You're up.

MS. PARKER: Just kind of some housekeeping things.

I do want to follow up to an issue that was raised at our last -- actually, two Board meetings -- by one of our portfolio developers, the project being Boles Creek. And Mr. Dunlap was one of the representatives of that. And as you recall, the Board had a substantial discussion about their request. The Agency -- I sent a letter to Mr. Dunlap and his partner, which I cc'ed all of you, essentially, saying that we would facilitate setting up a meeting with HUD to discuss their proposal, and also, again, reiterated that we thought trying to do something with their replacement reserve accounts was one way that they could essentially deal with perhaps some of their cashflow problems.

Subsequent to that, we received a letter and also a call to our general counsel from Mr. Dunlap. And I want to turn the microphone over for a minute to Mr. Hughes, for him to talk a little bit about their conversation and what the Agency is currently doing with respect to this issue, specifically for Boles Creek, but broader to all of the projects that might be impacted in our portfolio.

MR. HUGHES: Yes, that's correct. I talked to Mr. Dunlap of the Boles Creek project last week.

What I wanted to do, that -- Mr. Dunlap, when he contacted the Agency, had indicated that he was actually a licensed attorney. So I thought at that point it was appropriate for me to call him and discuss some of the legal issues involved.

Primarily, our conversation revolved around the limitations that the Agency operates under federal tax law; and I wanted to make sure that Mr. Dunlap understood that there are restrictions. We do not have unfettered ability to make loans -- tax-exempt loans. We have to do it consistent with federal tax law.

And I thought that narrowing those issues to get those off the table would be a first step towards focusing the parties on what we could do, what we couldn't do, what we were willing to do and not willing to do. So he indicated that that was a good idea.

We are set to speak with bond counsel later this afternoon, after this meeting. And I promised Mr. Dunlap I would call him back tomorrow, fill him in on where we were in that meeting, and then work the Agency towards a larger meeting, including the Asset Management folks, our business folks, and potentially HUD, which is also involved in this. And he thought that was an acceptable approach.

That's where we left it.

CHAIR COURSON: Questions from the Board?

MS. JACOBS: Thanks for the update. I appreciate it.

MS. PARKER: Then moving on, I wanted to let the Board know that I am still in the process of recruiting the two vacant positions that we have for director of Multifamily and director of Homeownership.

We have talked to the recruiters. The salaries that were discussed by the Board in the ranges that were approved in our January meeting have produced a couple of candidates. We have had some preliminary interviews.

We're just in the very early stages of talking to one or two people. So I would hope that I might have some candidates for the next meeting, but we'll have to wait and see.

Also, I'd inform the Board that we have been moving along in our working group on the Homeless Governor's initiative. And we believe the working group has just about completed its work. Kathy and Edwin, as the staff for the Agency, have done an outstanding job in working with these issues with our sister state agencies and HCD, the Tax Credit Allocation Committee, the Department of Mental Health, and then a number of local stakeholder groups in the counties.

We hope to be getting a timeline set, but the presentation was made for the Prop. 63 Oversight Committee. They were very pleased with the program proposal so far.

The Department of Mental Health is having stakeholder meetings on it right now. And we hope to complete that assessment with stakeholders by the end of this month, and the Department of Mental Health proceed with its approval process.

So I'm hoping that either by the May meeting, that we can announce that we have a program on the street, or perhaps give you an update, that maybe it will be the next month.

The last two items I wanted to tell you about: The Audit Committee's discussions in the past several meetings have led around to the selection of an auditor. Based on the analysis that was done and proposals that we received, the selection of the Deloitte auditing firm has been retained. We felt that given the expertise they have with the Agency, the number of programs that we have and the work that we are doing on a number of strategic alliances, that it made sense for us to continue this relationship.

The last item, I just want to say that we'll be talking more about it when we discuss with the Board the initial presentation for your consideration of the business plan for adoption at our next meeting. But since part of our discussion on the business plan is the amount of allocation from CDLAC we would have to receive, the select Board met a couple of weeks ago and laid out its initial distribution of the almost 3.2 billion dollars' worth of tax-exempt allocation, giving about 77 percent of it to housing. 23 percent of that going to single-family. The largest share of that is going to the California Housing Finance Agency.

Although it is not as much as we felt that we need in order to sustain the level that we have been lending, we will go through that.

But in addition, the Committee also allocated $140 million, with the possibility of another $50 million to the Department of Veterans Affairs. This year, there is the ability for any bonds that are sold to be available for lending to not only first-time home-buyer vets, but also any vet. So we are going to try to - and we'll talk about this later -- partner with our sister state agency, the Department of Veterans Affairs, to put together a housing program, ownership program specifically marketed to our veterans.

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

CHAIR COURSON: Okay, thank you.

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Item 4. Resolution 07-09, Eureka Family Housing

CHAIR COURSON: The next item on our agenda is the discussion of a loan proposal, for a final loan commitment on the Eureka Family Housing.

And, Laura, I guess you're going to take us through that process.

MS. WHITTALL-SCHERFEE: Yes, thank you very much.

I want to apologize for the fact that included in your Board binder was an earlier draft of the version of this proposal. I'm optimistic that all of you did receive a corrected final copy and that you were able to review that. I do apologize.

We're coming to you today and requesting approval of a final commitment on Eureka Family Housing. This is a little bit of a different proposal for you than you've seen in the past for one specific reason, and that is, that this project is in our portfolio, and it has failed the HUD REAC, which is the Real Estate Assessment Center inspection. It failed it in January of 2007. And the reason for its failure is the extensive amount of rehab that's needed. If this rehab is not completed, this project stands to lose its Section 8 subsidy.

And that's the real purpose for us bringing this proposal to you today.

The project is Eureka Family Housing. It's in Eureka, in Humboldt County, California. It actually consists of three separate parcels. They are not contiguous.

And Jim is going to explain to you other differences that this project brings to the table than what we've seen before, and this is one of them. This is not just a single site. This is three projects that are not adjacent.

The total number of units for these three sites are 50 units. They were all built in 1980. They all need substantial rehab.

Our proposal today and our request that we're going to submit to you for approval is for a final commitment for acq rehab and then for permanent financing.

Acquisition rehab would include a first mortgage in the amount of $3,375,000, variable rate, beginning at 5.30 percent for 12 months, interest-only, tax-exempt money. This would still adjust at a variable rate, very much like our other construction loans. The only difference is because this project needs this money so badly and because we are basically trying to save this project, we are asking to start the interest rate at 5.30, not at 6 percent, which is what the starting interest rate would be for our construction loan program today.

In addition, this project has Section 8. And we are proposing a second mortgage that would begin at the acquisition term for the Section 8 overhang in the amount of $1,150,000 for the remaining term, which is 14 years, at 5.3 percent. And that is also tax-exempt money.

The third mortgage, that would be needed also at acquisition, is for $305,000. The interest rate would be 3 percent, and it will be for 30 years. And it would be from our Earned Surplus money.

Once the loan converts to perm, we would have the second and third mortgages I've just explained to you. They would remain in place. And we would have a first mortgage in the amount of $940,000, at 5.3 percent. It would be one of our 30/due-in-15.

But there's also a little bit of a difference on the 30/due-in-15. The assumption is that we will have the 14 years of Section 8 money and that we will ask for -- or the owner will ask and receive renewals. However, the project cannot fully debt-service without the Section 8 money. So the understanding is that where the 30/15 program normally gives you the option to prepay after the qualified period, in this situation, if for any reason at all the Section 8 was not renewed, this loan would become due and payable because there is not sufficient money to make the debt service for the entire term of the loan.

In addition to our financing, the Redevelopment Agency is providing a rehab perm loan in the amount of 500,000 for 40 years at 3 percent. And the Housing Authority is carrying back a loan 2.4 million at 3 percent for 55 years.

And Jim is going to explain why we're talking about a seller carryback also in his part of the discussion.

And with that, Jim Liska is going to take you through the slides and go into a lot more detail on some of these issues.

MR. LISKA: Thank you.

Mr. Chairman, Members of the Board, it's a pleasure to be here today.

I just want to say, this is one of the first projects that we're presenting on behalf of Asset Management. In the ensuing months, I think you're going to see similar types of projects, similar types of financing scenarios that we're trying to look at.

We're trying to address now -- and I think you are seeing it now with other agencies -- looking at recapitalization of projects desperately in need of rehabilitation. And this is our first step and our first presentation on behalf of something like this.

I think we'll just step right into some pictures first to give you an overview.

Again, as Laura indicated, it's one project mortgage with three non-contiguous sites. The first one we're looking at, and it's an aerial photo, but it's a low aerial photo because I wanted -- just to the naked eye, the projects look pretty good, you know, from the exterior. This here has -- 615 West Hawthorne is eight units. They're all two-bedroom/two-bath townhouses.

The next one is 735 P Street, which is 21 units, studios, two- and three-bedrooms.

The last is 1112 E Street, which is 21 units. And it's one- and two-bedrooms.

Right here, this is the maintenance shed. And this is going to be demolished. And under the rehabilitation program, the Eureka Housing Authority is going to build a new community center, a new community building for their rents of all three properties.

Just to give you -- this is endemic, across all three properties. This is to show you some of the deterioration of some of the wood siding, which is a major cost out of the rehab budget of $2.3 million. Something like approximately $1,150,000 is going to be towards wood siding.

Another picture. Here, you can see some fungi on the exterior wood siding, the T1-11.

Finally, this is our rent spread. On one hand, we had REAC, with HUD's REAC score, where we failed REAC, as indicated, January of this year. However, we had a meeting with HUD and with the developer and his consultant, as well as their legal attorney. And we presented our budget. We presented our below-market financing. Because of -- with the infusion of tax credits, even with the Eureka Redevelopment Agency contributing $500,000, even paying off our first mortgage and putting on an additional first mortgage, Section 8 overhang, we were still short money, and we're using Earned Surplus funds.

That impressed HUD and, in turn, they allowed this project to be marked up to budget, which means that they allowed a 3.3 percent rent increase.

And you'll see that on the green bar where Section 8 rents equal market rent.

In addition, this project has been really a collaboration among our sister agencies. For CDLAC, to get it into CDLAC, normally, we would require 20 percent at 50 percent. In order for this project to meet the bare minimum numerical rating for CDLAC, we increased the 50 percent level by an additional 10 percent. So we basically have 30 percent at 50 percent, and the remaining 70 percent is at 60 percent.

As indicated, the current owner is the Eureka Housing Authority. As a way for leverage funds for this project, we're allowing a purchase by setting up a new legal entity, the Eureka California Family Housing, a Limited Partnership. The managing general is Eureka Family Housing, LLC, with its sole member being Eureka Housing Development Corporation. And the sole member of that is the Eureka Housing Authority. There are no other board members or anything like that.

This is the first time we're allowing a seller take-back, as indicated, of $2,400,000. This helped create an increase in tax-credit dollars.

The other thing -- and we're also allowing an identity-of-interest sale. We've had our own bond counsel look at it. We've had the tax credit investor look at the transaction, the legal entity, that it meets IRS Board of Equalization requirements for a legal transaction. Goldfarb Lippman, on behalf of Eureka Housing Authority, has given us a preliminary opinion that the criteria is okay.

Again, the tax credit investor in this case is Merritt Capital out of Oakland. And they have looked at the deal, and they're providing the tax credits for this project.

The other thing that HUD was impressed was that we are using some of our own Earned Surplus money. The Earned Surplus is a financing program designated to be proactive as a means of protecting the Agency's asset in cases where the alternative to the Agency is looking at the deterioration of the asset. And this is something that we want to prevent.

I guess basically, we're looking at that we are buying at least 15 more years. We want to save this project. There is a need for it. It's partnering with the Eureka Family Housing Authority, and trying to achieve it by using our various sources of assets that we have available.

The other thing that was mentioned is, we are looking at -- the project should make it after 15 years in the event that the HUD subsidy continues. However, if it doesn't, then we will trigger a payoff.

We have a relocation program. The relocation program is being monitored, administrated by the Eureka Housing Authority. They're using HUD's HOME VI program guidelines, which is acceptable.

They do have a person on staff to monitor for compliance for any relocation issues: Servicing of the tenants, working with them on orientation of what's going to take place. Timing, if they're going to be staying with relatives, if they're going to have to be housed temporarily, off-site, what have you. But that relocation program is in effect.

Again, the rehab budget, it's an ambitious budget. We felt it was necessary to do all the work that was required and not just put a bandage on it. And I think this is the direction that we want to take.

When we look at projects in our portfolio, that if we are short some money, again, we will step in and see about using a portion of our limited pot of money that we have for Earned Surplus to make this work.

Again, our rehab budget is $2.3 million in hard costs, which is approximately 50,000 dollars a unit.

With that, I'll be happy to take questions.

MS. WHITTALL-SCHERFEE: And I just also want to say that this is also in the current CDLAC round. So the expectation is -- our hope is that it will obtain CDLAC approval this month.

CHAIR COURSON: Let me -- if I may, so I understand. I'm looking at page 179 in our book. If I understand correctly, during the acquisition financing phase, the three loans that are noted -- CalHFA loans, the acquisition/rehab, second mortgage, and Earned Surplus, of course, would be there. And in addition, through the -- it says, "funded at acquisition," below, where we talk about "permanent source of funds."

Will those four items be funded upon acquiring the property prior to the start of rehab?

MR. LISKA: They will be funded at the time of rehab.

MS. ALVAREZ: Yes.

CHAIR COURSON: Okay.

MR. LISKA: Any existing reserves, we have a small portion of existing reserves. The operating reserve and a minimal existing replacement reserve will be thrown into the rehabilitation account, as well as $500,000 for --

MS. WHITTALL-SCHERFEE: It's a little bit clearer on page 181, where you see "sources and uses of funds," and you can see the funds.

MR. LISKA: They will come in at the beginning for acquisition, and then for rehabilitation.

CHAIR COURSON: And those four items will be subordinate to the three loans mentioned, CalHFA loans, under the acquisition?

MR. LISKA: The seller take-back will be subordinate, as well as the Eureka $500,000 loan. And that will be subordinate.

CHAIR COURSON: And then at the permanent, what we'll end up with at the permanent, at the end of the rehabilitation period, we'll have a 940,000-dollar first, a CalHFA 940,000-dollar first.

MR. LISKA: That is correct.

CHAIR COURSON: We'll have a 1,150,000-dollar second.

MR. LISKA: Correct.

CHAIR COURSON: And a 305,000-dollar Earned Surplus loan.

MR. LISKA: That is correct.

CHAIR COURSON: And then the other items funded at acquisition are subordinate to those three?

MR. LISKA: That is correct.

CHAIR COURSON: And they're funded out of residual receipts?

MR. LISKA: Yes. The $500,000 and the $2,400,000 is payable from residual receipts. It's an unstructured debt. Again, it's -- we looked at that to meet the appropriate requirements that it can be repaid. And again, the $500,000 is going to be repaid over 40 years, and the $2.4 million is going to be repaid over 55 years, which is the tax credit period.

CHAIR COURSON: I was just trying to get all these different layers in my own mind in terms of our priority of liens.

Thank you.

Mr. Shine?

MR. SHINE: Yes, thank you. That's where I was going.

Just for my own clarity, during the construction phase, am I correct in saying that the $4.8 million that we're advancing in the aggregate is all in a priority position, before any other debt or any other notes or any other --

MR. LISKA: The priority position, we will be first, second, third debt.

MR. SHINE: And then at the take-down, as the Chairman has said, our first and second and other loan will be prioritized, everything else will be subordinate to it?

MR. LISKA: That is correct.

MR. SHINE: Is the project paying -- the 2.4 million that the city is giving them --

MR. LISKA: No, the 2.4 --

MS. JACOBS: Mr. Shine, would you please finish your --

MR. SHINE: The 2.4 million that's shown here as funded at whatever, is really not any money; it's merely a note for the equity that we're allowing -- or that we're agreeing is the equity that the housing department has in the land, other than what they're getting paid in cash for at the close.

Is that correct?

MR. LISKA: That is correct, sir.

MR. SHINE: And does the project suffer any debt service on that subordinated equity note to the city?

MR. LISKA: No, it does not.

CHAIR COURSON: So there will be no cash flow payments?

MR. LISKA: it will be residual receipts, cashflow payment after all other debt service has been paid.

MR. SHINE: Does the interest -- is there interest on the note?

MR. LISKA: There is interest on the note. It is structured debt in order to meet --

MR. SHINE: And the interest, if there's not enough cash flow to pay during the term, then goes silent until the end, is that correct, or it just stays on the note?

MR. LISKA: it just stays on the note. It accumulates.

MR. SHINE: Thank you.

MR. LISKA: You're welcome.

CHAIR COURSON: Other questions?

Ms. Galante?

Oh, excuse me just a minute. Let the record show that Ms. Galante has joined us and is now present at the meeting.

MS. GALANTE: Thank you, Mr. Chairman.

I apologize for being late. I was having trouble finding parking today, for some reason.

You know, my question is more around -- and you mentioned we're going to be seeing more of these -- how we got here. This is a project that had 100 percent project-based Section 8.

MR. LISKA: This is a project with 100 percent Section 8, project-based. It was on an existing 40-year mortgage with a 40-year HAP contract. It's coterminous in 2021.

And I'll turn it over to Margaret to add any comments.

MS. ALVAREZ: Yes, I would just like to point out that this is -- oh, Margaret Alvarez. I'm the director of Asset Management.

Along the line here in the last few presentations to the Board, I've been talking about our portfolio aging, that we had several that had maybe some particular problems that we would be bringing forth.

Fortunately for us, most of our portfolio is in very good shape. We have a number that aren't. And one of the problems has been, there's been no rent increases from HUD for about six or eight years. So although operating expense has increased, rents did not increase for a very long time.

MS. PARKER: And, Margaret, when we've put funding aside as part of our business plan or Housing Assistance Trust funds for troubled projects, this is exactly what we had in mind. And in this particular case, we brought this forward because of the failure because of the REAC scores.

And I don't know whether you want to give the Board a little preview of whether or not any of the other projects in our portfolio have had failed REAC scores, just for a comparison.

MS. ALVAREZ: Yes, actually, we have had several failed REAC scores. There's five or six right now.

And usually, those can be fixed. In this case, the siding is a major problem. As Jim said, it's over a million dollars just for the siding.

That's been one of our problems in the portfolio, in general. In the older portfolio, they used T1-11 siding. Especially in Eureka, with damp air, et cetera, it just doesn't hold up very well.

MS. GALANTE: I guess where I was going, as we start to see more of these, is understanding, you know, the responsibility of the sponsor/owner in maintaining these projects. And I think you've done a really great job of creatively trying to figure out how to make this one work in the future.

And I just want to be sensitive to, you know, people taking responsible ownership and management of these assets, and not rewarding, you know, actors that haven't done a good job.

You know, I understand there are things that are outside people's control sometimes that we need to deal with, like I understand not getting rent increases for six or seven years, and understanding the T1-11 issue, which a lot of projects got into trouble with in this time frame, is helpful. But I just -- you know, I'd like to hear we're keeping this with the same ownership entity, essentially. I mean, legally, you're creating a new partnership, but it's the same people.

Do you have confidence that this owner is going to maintain this development appropriately in moving forward?

MS. ALVAREZ: I think we do, or we wouldn't bring it forward.

And, actually, one of the things we talk about in Asset Management and with -- or in Jim's group quite a bit is this whole notion of not rewarding bad behavior.

And I think this is a really good workout and a positive workout, if you will, in the sense that everybody kicked in something. The owners put up -- or, you know, they're putting in their 2.4 million equity that they're not going to see for possibly 55 years. That's pretty substantial.

Really, we're kind of using this as maybe our role model of what we're hoping most of the portfolio that needs help will do because we really feel like with a new owner, new tax-credit equity, and maybe some minor kick-in of our scarce Earned Surplus funds and so forth and the owners kicking in their own money, too, that really that's the best partnership you can get and everybody wins. Because you end up with some money to fix up the building, and not just put a Band-Aid on it, but to really fix it so it will last.

MS. WHITTALL-SCHERFEE: And if in addition to Margaret's comment about not just putting a Band-Aid on it, we're going to be funding through the close an initial deposit to the Replacement Reserve of $106,000, and then have replacement reserves in the amount of $600,000 per unit on a go-forward basis, with the understanding that that money is going to be used to set up a replacement reserve, so that as things come up down the road, this project will have the funds to handle the rehab that's needed down the road.

CHAIR COURSON: Are there other questions?

Ms. Jacobs?

MS. JACOBS: First, a comment.

This does show the importance of reserves on our projects, and something we might want to look at on an ongoing basis, given the age of some of the projects in the portfolio, to make sure that we're working with projects that have underfunded reserves.

But secondly, I see on the pro forma, $75,000 for relocation.

Have we reviewed their relocation plan, and are we comfortable that there are places in Eureka to relocate people?

MR. LISKA: Yes, we've reviewed the relocation plan.

Again, the 75,000-dollar budget is a temporary budget. The majority of the work, as indicated, is going to be on the exterior. And, yes, there will be some interior.

And, again, we're looking at three non-contiguous sites. So you're going to see a rolling rehab pattern, so that there shouldn't be a long period of time for temporary displacement of residents or tenants. So, yes, we have looked at the plan. We feel comfortable with the Housing Authority.

Bob Morelli, who is the executive director of the Eureka Housing Authority, has been doing this for a number of years. They have other projects. We've taken a look at those projects while we were up in Eureka.

We feel comfortable that they have the wherewithal. The general contractor is local. He has done past business with the Housing Authority. Their product looks good.

And this is a product, as indicated, that needs some rehab right now.

So yes, to answer your question, I feel comfortable with the relocation.

MS. JACOBS: Okay, thank you.

CHAIR COURSON: Are there other questions from members of the Board?

(No audible response)

CHAIR COURSON: Is there a motion to approve the resolution on page 193, approving the project?

MS. GALANTE: I'll move.

CHAIR COURSON: Ms. Galante moves.

Is there a second?

MR. CAREY: Second.

CHAIR COURSON: Mr. Carey seconds.

Is there any comment from the public on the project?

(No audible response)

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

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: Resolution 07-09 has been approved.

CHAIR COURSON: Thank you.

MR. LISKA: I would just -- can I say one comment, please?

CHAIR COURSON: Yes, please.

MR. LISKA: On a positive note, this is our first project. I'm very excited about it. I'm very pleased that the Board has approved it.

I see this as a partnering in our own Multifamily with Asset Management and on a go-forward basis. Yes, we are looking for creative ways to finance these projects; we are looking for integrity and responsibility on the part of the owners. And I just see some good things happening in the next year or so.

And thank you all.

CHAIR COURSON: Thank you, Jim.

MS. PARKER: Mr. Chairman, I might mention, Mr. Liska is going to be retiring shortly, and we're going to be losing him, from the standpoint of our regular -- one of our underwriters in the Multifamily Program.

However, Jim has offered to continue to work with us, the Multifamily staff, and particularly for Margaret, going through these kinds of projects in our portfolio.

As we have said, Margaret has been concerned about these. We're really trying to focus our attention on this. And we're very pleased to not only want to thank Mr. Liska for his service to the citizens of the state of California and the Agency, but the fact that we will be able to continue to benefit from his services for the benefit of our projects and our tenants.

Thank you, Mr. Chairman.

CHAIR COURSON: Thank you.

Thank you, Jim.

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Item 5. Bay Area Housing Play Financing

CHAIR COURSON: The next item on our agenda is our regular update on the Bay Area Housing Plan financing. And our familiar friends who report to us at our Board meetings, Kathy and Edwin are back.

MR. GIPSON: Good morning. Thank you.

CHAIR COURSON: You have a report in front of you, legal-sized, with an attachment to it.

MR. GIPSON: we handed out this morning a schedule of the properties as stated before. And then there's an attachment in the back that has a quick status of some of the permit process on the ones that are closed and where we are with those and what's pending and what's not. It's a quick little list there for you guys to look at.

Today we're going to provide you an update on what the status of the construction is, what the status of the memorandum of an understanding, with the additional $11 million in predevelopment funds coming into the project. In addition, we will give a little bit of the approved properties of what the next steps are.

And I'll let Kathy go through the actual plan details.

MS. WEREMIUK: Chairman Courson and Members of the Board, it's a pleasure to be here again.

In the chart that you have before you, you will notice there are 23 properties. And these are the 23 properties that the Agency has issued commitments on. We have not issued any commitments since the end of

November of 2006. However, the borrower, Hallmark Community Services, has committed an additional 13 properties, and those are listed as numbers 24 through 37.

The reason we haven't committed additional properties was, we've been negotiating an agreement with the regional centers and DDS regarding the use of the additional $11.1 million. We're very close. And I think by the end of the week, we are hopeful that we will have that document signed.

What you would see in front of you shows you a little bit of the impact of that document.

We have agreement on the first 23 properties that the regional centers will contribute $2,189,000. It's the first block in sort of green-blue.

In addition, there is another $1 million of money that was spent for legal expenses and other start-up expenses that they've also agreed to contribute. That leaves approximately $8 million. And we have a tentative agreement with them that hasn't been signed yet of a maximum and a minimum commitment price from the Agency by housing type.

Where we are right now is a maximum on, for example, an SRH3, which is a model for people who have behavioral problems, not medical, of between 1.3 million and 1,450,000.

It goes up for the most expensive, which is the medical model, in the priciest locales, which is the South and West Bay, to 1,935,000 as a maximum, and a minimum of a 1.6 million.

When you look at the green chart, you would see, in terms of CHFA commitment on the numbers 24 through 37, the impact in bringing down what we anticipate our original commitment on the loan would be and what the equity dollars in the next column are that the regional centers would come in with.

If we follow this pattern per house and per house and per house that has already -- that we anticipate, given the prices we've seen today, we think that on the remaining houses we will see them putting in about $7 million initially, leaving $1 million for them to put in to what they call "true-up" or "equal loan" amounts for the properties.

Their goal -- the regional centers' goal was to reduce the cost in properties but do it as equally as possible. Ours was to have the money come in early; and we've been negotiating over this time period, not over whether that money would come in early, but -- whether the money would come in, but how it came in so it satisfied both of us.

We think we're very close. And once we are, we will start issuing commitments again.

If we go through property 37, we will be up to the Board's maximum commitment to date, which is $70 million. And we anticipate that we'd be coming back in to you for additional allocation at the next Board meeting.

The borrower in the meantime has taken out a line of credit with Merchants Bank, which is how they acquired these houses. The first seven of them, they have asked us -- they've actually -- they're houses that are completed or purchased complete, almost complete; and they have asked us to put them into the BofA line of credit and take them out almost immediately and do our first seven loan purchases.

So, again, if we go according to the schedule I think we have, we may have seven loans that are purchased by the next Board meeting, as well as coming back for additional allocation.

On the construction costs, we have our first three properties. We have bid amounts and contract amounts from the contractors. And what we've found there, Eden, Baywood, and Northlake, is that the contracts -- the signed contracts are slightly lower than the estimated amounts that we had in our commitments.

Eden would be a good example. The total contracts, with the contractor and for environmental work, came in at $324,000. We had estimated three sixty-four.

That's good news, in that the estimating low, it was done conservatively, at least, was high enough that we're not anticipating seeing a bump-up in the commitment that the Agency has made to the properties.

The regional centers plan to use the full dollar amount of our commitment because they had some add alternatives they wanted to add to the contract; but they agreed not to add them if it pushed the dollars higher than what we had originally committed to.

So that's a start of good news.

They are not yet under construction. Three of the properties are ready to go. And we have spent the last two weeks reviewing the documentation under the loan purchase agreement to get a sign-off from the bank and us that's consistent with the documents that we have. In that process, we've approved final master specs for all the properties and have also approved a list of documentation that they'd be giving to us and the bank to meet requirements.

The contractors, as I mentioned at the last meeting, will be different, for different bundles of properties. The first contractor was a little weak in

Bank of America's overview; and they've approved them only for one project, contingent on -- or one set of projects, contingent on actual loan purchase by the Agency. They've been concerned that they would get the performance that they want. These being smaller properties, the borrower has not had the pick of the top-line contractors.

So we anticipate probably at the beginning of the week the construction contracts will be signed and the first three properties will be under construction.

And I think that that is -- oh, you have a construction schedule. That just shows you the status of which of the first three sets of properties are in design; and in permitting, over half are in the permit process right now. The longest lead time item on the permanent process is getting fire department clearance for all of the life-safety requirements for the very fragile population that is being served.

Any questions?

CHAIR COURSON: I have one.

Kathy, you mentioned looking at this Eden property as an example, that the rehab estimate was 364,000. I think you said it came in at 324,000.

MS. WEREMIUK: Correct.

CHAIR COURSON: And then you made a statement, if I understood you correctly, you said we'll still fund the 364,000 and the additional 40,000 was going to be used by the regional centers for something?

MS. WEREMIUK: They're what they called add alternates.

In the first set of properties, they put in a list of items they wanted to add in if they were funds that was -- it was a learning curve. By the time we got to about the sixth property, they had hired the staff they needed and determined what actually they needed in the way of safety equipment for the residents.

But in the first properties, they were not as geared up, and they had not listed everything that they were actually concerned about. And so that list of alternates included some things that are mandatory in later properties.

CHAIR COURSON: Okay, I guess my comment is that it's sort of like the old adage that if it's there, someone will spend it. It's like my grandchildren. And my concern is that if we're able, in fact, to bring in actual costs less than our estimate of the rehab, to make sure that the dollars we're spending are not being spent just because they're there, but truly are going to enhance either value or utilization by the residents of what we're putting the money for.

MR. GIPSON: They will enhance the value and the utilization for the population. It's just a matter of you have budgeted dollars available and costs, and you have things you really need to have. There are a few things from that first group that should be in there that weren't. But you also have some things that if we had the funds, we would have this extra thing. And if you add something extra on top of what we've already budgeted, you're going to add a little extra value as well. So you don't really get punished for it, other than the loan amount still stays exactly where we thought it was going to be.

CHAIR COURSON: Thank you.

Other questions from members of the Board on the Bay Area?

(No audible response)

CHAIR COURSON: As always, a very good update. We appreciate the reports. And I'm sure we can look forward to seeing you in two months.

MS. WEREMIUK: Thank you.

MR. GIPSON: All right.

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Item 6. Resolution 07-08, Discussion, recommendation

and possible action re augmentation of 2006-07 Operating Budget

CHAIR COURSON: Let's move on to our next item, which is Item Number 6, which is the recommendation and potential action regarding the 2006-2007 operating budget.

You have in front of you a document that's called the -- I think this is right, Terri -- this is what they should be looking at?

MS. PARKER: No.

CHAIR COURSON: No, don't look at that. That's incorrect.

MS. RILEY: There should be a handout that JoJo passed out.

MS. OJIMA: It should be this.

MS. RILEY: That would be it.

MS. OJIMA: Right.

CHAIR COURSON: Okay, it's a document that is called, "The Housing and Insurance Operating Funds." It's the operating funds detail, and it's clipped together.

MS. RILEY: And basically, that document shows our actuals for last year, our adopted budget for this year and what we're recommending to amend the budget by.

The two attachments are by fund. They show the breakdown by fund.

If you will recall last year, when the Board approved the operating budget, we did not include any increases in that budget for cost of living or any bargained-for increases.

What you see in front of you are those increases that came subsequent to the operating budget being adopted. And those include the three and a half percent cost of living that was passed along to all employees. It has an additional $1,000 that was a one-time approval for most of our employees. And it also includes, in January, some of our IT classifications, where they were at the top of their range, got an additional 10 percent increase.

So that's what the $886,000 is. And then there is the benefit factor.

This does not include any exempt salary increases.

MS. PARKER: Mr. Chairman and Members, if you'll recall at our last meeting, I essentially informed you that we were beginning to review, as part of doing our mid-year update, looking at our operating budget, and that I expected that we had identified the costs associated with the salary increases that were not budgeted, being approximately a million dollars.

And so, as Jackie said, we have not put anything in here for the salary increases, although the salary increases were effective January 1st. And there will be an impact on our budget.

I think that we will have further information about whether we need to have some adjustment to our budget; but this one, we clearly know, because it was not included, that it needs to be made. And so we are asking only for your consideration for this item.

MS. RILEY: And, actually, just to correct you, Terri, the salary increases were effective last July, other than the additional 10 percent.

MS. PARKER: Oh, I'm sorry. What did I say?

MS. RILEY: January.

MS. PARKER: I meant the exempt positions being effective in January.

MS. RILEY: Yes, the exempt --

MS. PARKER: These salaries, these positions were effective in July.

MS. RILEY: Right.

CHAIR COURSON: Questions?

(No audible response)

CHAIR COURSON: Now, these increases were in accordance with the --

MS. RILEY: Collective bargaining agreements.

CHAIR COURSON: Collective bargaining

agreements? Okay.

MS. RILEY: Yes.

CHAIR COURSON: So they're the same as other agencies and departments?

MS. RILEY: Absolutely. Most of our employees belong to Bargaining Units 1 and 4.

We did include last year in the May budget, there were some bargained-for increases for attorneys earlier than July. Those were included. And also we have a few inspectors in Bargaining Unit 9. Those were included. But the bulk of our employees are in these bargaining units.

MS. PARKER: And I think we told the Board when you all adopted the business plan and the budget last May, that we were expecting that there would be a general salary increase and we would have to come back and deal with that, with the Board at the time.

This is typically the way CalHFA follows, although we're not part of the budget, it does follow what other state agencies do. And the fact that their budget is not augmented by a salary increase when it is granted through collective-bargaining and MOU agreements that are not usually perfected until sometime in August, September before the Legislature goes home, and then retrospective, if that's appropriate.

But the way it works for the state budget is there is a salary item, and then from that salary item, those dollars are then allocated to all the various departments that are impacted.

Clearly that's not the case here because of CalHFA being off-budget and needing to come to the Board for our authorization.

CHAIR COURSON: Are there other questions from the Board?

MR. SHINE: Yes.

CHAIR COURSON: Mr. Shine?

MR. SHINE: There's three pieces of paper in this report and --

MS. RILEY: Yes, the top one is the combined budget for both Mortgage Insurance and the Housing Finance Fund. The two that are attached break it down by fund.

MR. SHINE: I see. So am I correct then in assuming that this one here that says, "Housing and Insurance Operating Funds" is the consolidated one --

MS. RILEY: Yes.

MR. SHINE: -- or is it the "CalHFA Fund Operating Budget" that is the consolidated one?

MS. RILEY: The consolidated one has both funds, CalHFA and insurance, which is the bottom line, nearly

1.1 million. The other two adds up --

CHAIR COURSON: The consolidated says "Housing and Insurance Operating Funds," and the increase is $1,086,000.

MS. RILEY: Yes, exactly.

MR. SHINE: Thank you.

MS. RILEY: You're welcome.

CHAIR COURSON: Yes, any other discussion?

(No audible response)

CHAIR COURSON: The resolution to approve these changes is on page 195.

Is there a motion to approve?

MR. DAVI: So moved.

CHAIR COURSON: Mr. Davi.

MR. PAVAO: Second.

CHAIR COURSON: Mr. Pavao.

Any discussion from in the public?

(No audible response)

CHAIR COURSON: Seeing none, then let's call the roll, please.

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: Resolution 07-08 has been approved.

CHAIR COURSON: Thank you.

For the convenience of the Chair and maybe some others in the room, I'm going to declare a recess for ten minutes, and then we'll be back.

Thank you.

(A recess was taken from 11:19 a.m. to 11:34 a.m.)

CHAIR COURSON: I'll call the meeting back into session.

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Item 7. Compensation Committee Report

Item 8. Possible Discussion and Action by Board Relating

to the Compensation Committee's Review and Recommendations

CHAIR COURSON: The next two items really go together. 7 and 8 is the Compensation Committee and potential action based on recommendations.

Let me report to the Board that the Compensation Committee did meet today at nine o'clock but two of the three members were not there. Mr. Czuker and Mr. Morris were not in attendance, so I was the only member that was there.

MR. DAVI: Was it ridden with debate, Mr. Chairman?

CHAIR COURSON: It was. I had a vociferous argument with myself, and it was a split vote.

Actually, we did meet; and based on that, we are putting the four items that were before the Compensation Committee for discussion in front of the Board for our discussion and action today.

Let me, if I may, there are four items that you can see in the agenda, dealing one with Watson Wyatt, CalPERS, salary ranges, and the salary of the executive director.

I'm going to make a couple of comments and a suggestion.

The Watson Wyatt issue was one, if you'll recall, that after our last meeting, where we had taken the action we had taken in conjunction with salaries and salary ranges, that we were going to ask Watson Wyatt for a proposal to help us draft policies and procedures as a follow-on.

And we have a proposal from them, but I'm going to suggest that we postpone any discussion of that proposal until we deal with the other items that we have to deal with on the salaries. It seems like moving forward with that, and the second item on our agenda, without dealing with the issue that we are going to be discussing shortly on salary ranges and salaries, we should just postpone any action.

The second piece, the PERS piece, if you'll recall, we had discussions on this Board before about, as we grant salary increases, is it appropriate and is it permissible for CalHFA, being self-funded, off of the budget, is it appropriate with our self-funded status to make contributions to the pensions based upon the salaries granted to staff, senior staff of CalHFA. And, again, I'm going to suggest that we'll keep those on the agenda for a future meeting; but I think we need to deal with the other two issues before us today before we move into the discussion of those two.

So if there's no objection, we'll just set those over for our next meeting.

Having said that, I think what I'd like to do -- and bear with me, but I think this is important, let me share with the Board, discussions, conversations, and communications that I've had over the last 30 to 45 days -- probably 30 days -- in conjunction with the action that the Board took at our last meeting in setting the salary matrix, if you will, and also with the salaries that we approved for the ten senior staff positions.

I received, along with Terri, a request for a meeting in the Governor's office, which we both attended, along with Mr. Hughes and Ms. Richardson. And, basically, during that conversation -- it was attended by ourselves and members of the Governor's office and representatives from the Department of Personnel Administration -- and the discussion centered, really, around a lot of items in the process, which we went through the process. I discussed at great length the forming of the Compensation Committee, how we did our work, the Watson & Wyatt survey, and the process that we went through as a Compensation Committee and as a Board to reach the conclusions we had reached at our January meeting.

Having done that, at the end of the meeting, really, I was asked by the Governor's office if I would recommend to the Compensation Committee, and ultimately now to the Board, a reduction in the maximum limits, the maximum salary of the salary ranges, if I would recommend a reduction in those maximums of the ranges that we approved.

And I did say to the people there that after a discussion of that item, that I would make that recommendation, that the Board revisit and take a look at the maximum on the ranges that we had established.

If you'll recall -- and I don't believe Watson Wyatt commented on this, but I will tell you at the Compensation Committee, Watson Wyatt was helping us, and the decision was made to make these ranges wide -- appropriately wide, so there would be future opportunities to move forward in compensation, both in recruiting and retaining folks, without having to continue to come back and revisit the salary ranges.

But having said that, clearly we, as a Board, can consider, and I would recommend that we consider moving the tops of those ranges back to a lower level.

And if I may, I'm going to -- I know there's two separate items, I'm going to give you this briefing all at one time so we can put all the pieces together.

So that really concluded that meeting.

I then subsequently had an e-mail that was sent from the Governor's office to Terri, which was shared with me, and another conversation with the Governor's office over the last week. And during that conversation, the essence of it was that they felt -- the Governor's office felt that it was inappropriate for the executive director to have a salary that was in -- an approved salary -- that was in excess of the salary of the Secretary of Business, Transportation, and Housing, and that they urged that I bring that to the Board for their consideration.

I did not make any commitments. Obviously, the Board speaks for themselves as to how they'll act. But I did agree that we would place that on the agenda. And you see it on the agenda today.

Having said that, I also would remind -- I reminded the Governor's office, and I would remind the Board of a couple of other facts, which I told them to try to be fair, if you would, in the way I present this, that one of the purposes of the legislation, and clearly through the process of hearings and votes and consideration, both in the House and the Senate, was to move the executive director into the legislation, subject to the approval of the Board establishing the executive director's salary because, previously, prior to this new legislation, in fact, the executive director's salary was capped and could not exceed that of the Secretary of Business, Transportation and Housing.

So one of the specific purposes of the legislation was not only to, as we've talked about it at the Board, to sort of clarify that we have the authority to set salaries, which has always been some question, but also set the salary of the executive director.

The other conversation I had with the Governor's office on two occasions, and, again, with this last communication, was that I was also going to remind the Board, on the other side of it, that clearly, we have -- that in the legislation, it's clear that -- and it says that -- these salaries as set should be commensurate and comparable to other state housing HFAs. That's in the legislation itself. And we felt that we had done that and, in fact, had shared information in our meeting with the Governor's office about where the salaries that we approved were, particularly for the executive director, in line with other HFAs that are notably smaller than we are.

The third thing I said to them, I would share with the Board, was the issue that we're all well aware of, and we've certainly discussed with them, was the issue of our bond ratings in Standard & Poor's. And clearly part of this issue has been raised, as we know, with the Standard & Poor's rating, that when they raised the issue of our salaries compared to other HFAs, which they rate and are aware of, and frankly, probably about 30 days ago we received some comments from Standard & Poor's stating that they were pleased that the Board had taken the actions, and we now had moved out from under the governmental influence and governmental standards and maximums in establishing our compensation to retain and recruit our staff. So that piece I reminded them of.

And I said to the Governor's office and those I spoke to, that I would present both sides of that issue.

I will tell you also, although I don't have any facts about it, that there is pending, apparently, a review of salaries for secretarial and agency management positions.

In addition to that, I received a letter from Senator Lowenthal, who chairs the Senate Committee on Transportation and Housing, that heard our bill when it moved to the Senate, when it was in the Senate last year. And I met with Senator Lowenthal, after receiving his first letter, along with Ms. Richardson, and basically, the essence of the conversation, both in his letter -- which I'm happy to share a copy of with you -- and the discussion we had, that he indicated that in his comments at the hearing, he had said -- and I'll quote out of the letter:

"I would like to make it clear that I do not want to see this salary authority used to substantially boost salaries of staff in the years before retirement. My support today is to ensure that CalHFA can attract and retain qualified staff, not to fatten pensions."

And basically that was the essence of his letter, and we talked about that. And his concern, which he expressed in a second letter, which I just received actually yesterday, is that the Board had granted substantial salary increases to existing staff, as opposed to salary increases to recruit positions that were not filled; and asked that, in fact, that the CalHFA Board reconsider these large salary increases in light of being made aware of his comments in the previous -- in the hearing that I previously related to you.

Those are the facts that we have before us.

We, as a Board, need to make a decision as to how we want to move forward.

I would give you one other fact, too, that, I'm sorry, I forgot. The salaries that we approved at our last Board meeting have not yet been processed or moved through the system. And the comment is that -- and the reason that I have been told they have not, is that the Department of Personnel Administration has said they would not process these until such time as the maximums of our salary range were moved down to the salaries that we had approved. In essence, the maximum of the range would be the salaries that were approved. And since that did not happen, until that happened, they would not process the papers.

So I think that's a full and complete and, I hope, fair presentation of where we are today. We're going to need to -- obviously, the Board -- discuss and make some decisions as to how we move forward.

I will tell you that I did look at -- let me make some comments from my own standpoint as a director. And I want to speak specifically about the salary ranges.

I believe the process we went through was a very detailed -- clearly, we spent a lot of time and resources and money to develop these salary ranges. There were numerous meetings of the Compensation Committee. We considered it as a Board. And I would tell you, I would hate to see us, albeit the Board will do what the Board will do, to abandon completely this idea of a salary matrix and salary ranges. I think it's a viable way, whether it's in government, private industry, or not-for-profits to judge compensation. And the hard work and the surveys that were done by Watson & Wyatt, I would hate to see us move away and abandon what we've already put in place.

From the same standpoint, having said that, I could support -- and having been part of the conversation, along with Mr. Czuker and Mr. Morris, I certainly could support and see the ability to respond to the request from the Governor's office of moving those maximum limits down.

And I will tell you that I worked with some numbers; and if, in fact, you took the salary levels that we approved at our last Board meeting and set the maximum at, like, 5 percent above that level, you will see notable drops in the maximums, which I think is in the spirit of what I suggested to the Governor's office that we would be discussing.

But having said that, I'd like to just get thoughts and considerations from the Board as to how you -- I'm sorry, and you have the two documents, just to refresh everybody -- I know you've had them before -- but in front of you, you have the salary ranges, the generic salary ranges that we approved, and then the specific salary grid that we approved.

Ms. Galante?

MS. GALANTE: First of all, that was a point of clarification I was going to make. What we have in front of us is from 1/18/2007.

CHAIR COURSON: Yes.

MS. GALANTE: That's what we approved at the January Board meeting?

CHAIR COURSON: That is correct. We took two separate actions. We approved the salary structure, this preliminary salary structure *(pointing)*.

MS. GALANTE: Right.

CHAIR COURSON: And then, secondly, we went back and approved the specific salaries on this page *(pointing)*.

MS. GALANTE: You know, I'm going to go out on a limb here. I understand the political sensitivity of all of this. I have to say, I also agree that the process that was gone through by the Compensation Committee was a thorough one, hiring Watson Wyatt people. And I guess there could be some criticisms of whether we, you know, appropriately looked at the benefit, the defined benefit plan that the employees participate in. But from my perspective, these salary ranges are totally appropriate. And I would personally not be comfortable -- I mean, I would vote against lowering the maximum. I think one could argue that the differential between the executive director and the next highest-paid employee is not enough of a spread.

The chairman of my board is an investment banker; and, you know, he looks at me every month and says, "You're in charge, you're the CEO. You know, all of this rests on your shoulders." And I believe that is the case here with Terri Parker.

And I think you could argue that there's not enough of a spread between essentially our CEO and the next-highest-paid people.

I think these ranges are needed to operate. This is not a government agency. It is a major financial institution. I think that is an important distinction. And I understand why that's hard for the folks in government to embrace and to get; and they all ought to be paid more than they're paid as well, because they do a difficult job.

But I just do not think we can recruit and retain the kind of talent that is needed for this agency without having appropriate salary structures.

I also think you cannot say to people who have, frankly, been underpaid for years and years and have dedicated their service to this agency, that we're going to lower their salaries -- or we're not going to increase their salaries, but we're going to increase other positions, so that if you leave, we have to pay a lot more to replace you, we have to pay a lot more to retrain you, we're going to lose a lot of knowledge, but we're going to keep your salary where it is because you've been underpaid for so long, we're just going to keep on doing that, and we're going to bring other people in who need to be trained and need to play an important role and pay them more. I just think there's an equitable issue there that, you know, I certainly could not embrace.

CHAIR COURSON: Thank you.

Comments from other members of the Board?

Mr. Shine?

MR. SHINE: First, I voted last time to approve this. So it has my support.

I get a sense from your report, about the discussions you've had with the, quote, "Governor's office," unquote, that there's some arbitrary thinking going on here. And since my background is not in government but in private enterprise, and I look at how companies operate and how I operated my company for 40 years, I never found it worthwhile or meaningful to deal with people's salaries based on what other people were getting in certain areas.

However, the only thing that I can recall from our last meeting that was meaningful to me was when Mr. Oclaray from Wyatt -- whatever.

CHAIR COURSON: Watson Wyatt.

MR. SHINE: -- Watson Wyatt, when asked by me what he used for the comparison criteria, admitted or said, if you will, that it was cash.

And if we want to in any way try to in some way accommodate the Governor's office -- which I don't know that it's --

(Cell phone ringing)

MS. JACOBS: I'm sorry.

MR. SHINE: Are you still on T-Mobile?

MS. JACOBS: I didn't realize it was still on. Sorry about that.

That just added emphasis to your remarks.

MR. SHINE: Actually, that was a note for me to stop talking; right?

The only thing that I could bring to mind, if there's anything we want to do -- and I'm not so sure we do -- but everybody has to feel that they've been paid attention to, I think -- might be to take a look at some of the criteria that was used by Watson Wyatt, and to see, does the retirement and the benefits and so on and so forth from us to all the other HFAs, or however that works, is it really apples and apples? I was unclear whether that was true or not.

But other than that, I don't think there's any reason why we, as an entity that doesn't take money from the state, that we go get -- we're self-funded, we're kind of semi-independent from a financial point of view -- why people just would say, "I don't like the idea that you get more than Joe Blow," and there's no reason for that. And so if we're going to run our company -- our agency, and maximize our ability to raise funds and use them to house people in a way with affordable housing, then we have to have the staff.

But I felt compelled to make that comment, that maybe that's one thing that you might want to think about reviewing with Watson Wyatt in connection with their criteria for these ranges.

CHAIR COURSON: Let me respond to that, Mr. Shine.

The Watson Wyatt study -- and not to drag out the 150 pages again -- but there was -- and I think we looked at it at our meeting -- there was some work done on benefits. But basically what it was, was comparing of total compensation, what percentage were benefits versus cash dollars. There was a chart in that book that I can't point you to it right now. But that was as far in depth -- I know we looked at it at the Compensation

Committee -- is what compensation, what percentage of compensation is cash, if you would, and what percentage, if you load it all in, are benefits. That was the one piece of work they did.

The other, I would say -- and I think that Mr. Oclaray said this when he was with us -- that to do a benefits study, or include benefits as part of our study, was a very extensive project, clearly something they could do, but would take substantially longer than the time frame we were trying to work with to accomplish that.

And I believe the record would show that I commented at that time that, as the survey -- as we approach this process next year, it would be my encouragement to the next Compensation Committee that they do another survey that would then give them time and zero in on benefits. And I think that was the recommendation I made.

MR. SHINE: Well, as long as we're in a position to say we're going to take a look, I do not favor making any changes to the graph, to the chart of salaries, however. And I agree with Carol that that's not where we should be at if we're going to do our job.

CHAIR COURSON: Other comments?

Mr. Carey?

MR. CAREY: You know, public service -- it reminds me of my family: I'm drawn to it, and nobody frustrates me more.

And I think it's important to remember the environment we're in. And occasionally, we're reminded of it.

I think that we went through a thoughtful process; and this has been going on for, really, a couple of years, a concern, addressing this issue of establishing compensation levels that would enable us to recruit and continue to maintain the strength of CalHFA.

There are a couple of things that, for me, are important. And that is that we have to keep our eye on what our goal is, which is to long-term ensure that the agency is well-staffed and appropriately staffed. And I think it may be that we have to get there in an incremental manner.

I'm a little concerned that occasionally the existence of controversy or issues is instructive, and there may be times where it's worth taking a step back, even as you keep going down the path, in order to lessen some of that and demonstrate thoughtfulness and sensitivity to the issues that are raised.

Setting aside the absurdity that we would only raise salaries for new people and not recognize that if we replaced an existing person we'd have to pay them more, and recognizing that the salaries at the secretarial level, we, I think as the public, should be very grateful for the fact that there are people willing to serve for those salaries. Often, I don't think we should be limited by at least the salaries I know of.

And I think also it's important to realize that, as we struggle with this issue and keep working forward, there are people -- and obviously particularly our director -- who are caught in the middle of it as we hold the line one way or another.

And so the realist and pragmatist in my side would suggest that we do consider a way to take a step back, minimize some of the issues being raised without losing sight of the fact that this is, in fact, an annual process.

There was nothing in the legislation that says this is a one-time process; but it's one that we will revisit again in what will be a surprisingly short time. And as long as we know where we hope to take this, and, frankly, chart the course perhaps for some other agencies also, I would, frankly, see us -- I would be supportive of finding a middle ground that keeps us moving forward but perhaps not as far as we'd like.

CHAIR COURSON: Other comments from the Board?

Ms. Jacob?

MS. JACOBS: The fact is, we're not a private bank. It would be -- I don't think we'd do things differently if we were a private bank, but we're not a private bank. And the fact that the Legislature is the one who gave us the authority is somewhat different from if we were a financial institution in the private sector. So it is quite a complex issue that we have in front of us.

We have a very well-defined mission, and we've done a very good job of achieving our mission in enhancing affordable housing opportunities in the state of California.

And our senior staff, as well as all our staff at CalHFA, has done an extraordinary job of being very creative in coming up with some exciting new programs that we're doing both as a quasi-government agency, but couldn't be doing if we weren't funded from an outside -- the government source. So it's quite a complicated issue.

I think it's very important to pay special attention to the chair of the Housing Committee and the Senate having concerns about what his intention was in the legislation. And being the new kid on the block, I'm learning that intent in legislation might not actually be in the words that get voted on. So we're kind of in a -- I mean, I'm personally in a quandary here because when the chair of a committee says, "Well, that wasn't what we meant with the legislation," I'm seeing that in my day-to-day life in implementing legislation at HCD.

So I think we made a reasoned decision in January with the information that we had; but I also know that DPA, the Personnel Administration, is continuing doing salary reviews on everything in BT & H. And it's an ongoing process. And their input -- I think the only input we had from them in our salary study is that they're in a process. And maybe we should be taking a look at finding out when they're going to have results of their process, and having that as part of our evaluation.

MR. DAVI: Mr. Chairman?

CHAIR COURSON: Thank you.

Mr. Davi?

MR. DAVI: Well, this is a very difficult issue, and I think Lynn has pointed out that we are not a private bank, and we do have to deal with the Legislature and the connection that this agency has to it.

And not putting aside the comments that have been made by prior Board members, I do understand the decision we made in January. And I do think it is possible that we got ahead a little bit in January, ahead of maybe the intent of legislation, ahead of maybe -- like what Dr. Carey said about the goal. The goal is to make sure the Agency is prepared and able in the long-term to do its mission and function.

And I like the fact that things move fast in government. You don't see that very often. So it's nice to see. But there is a process ongoing. And I don't think we spent a lot of time with DPA, maybe because they move slower than we did. But for positions that are -- we do report or we do fall under the Agency, Business Transportation, and Housing, and we share many positions with our executive staff with departments throughout that organization. And perhaps we should take our process with DPA as we proceed.

It doesn't mean what we did in our analysis with Wyatt and so on is inaccurate. It doesn't mean that in six, eight months, or wherever, we're not going to be at the same place we are right now. But do we need to reconsider what we did in January, in light of the fact that there's an ongoing analysis taking place under the Business, Transportation, and Housing agency about Salaries, and maybe only proceed on positions that are critical at this point, that are vacant, or to kind of go to where some of the intended consequences of the legislation, SB 257, that are unique to a housing finance agency, not unique to, say, a government department.

And perhaps that would be one way to proceed to reconsider, but move forward on those positions that are critical for our function in terms of the uniqueness of the housing agency, and not so much on the other positions that we have.

CHAIR COURSON: Thank you.

Mr. Shine?

MR. SHINE: Am I correct in recalling that what you said, that the issue was the maximum amount of -- the column called "Maximum amount," and that's really what's under discussion, as far as --

CHAIR COURSON: Well, there are two issues under discussion. One is specifically the conversation that I had and the commitment I had to bring to the Board, consideration of reducing the maximum in our salary range. That's one issue.

MR. SHINE: Okay.

CHAIR COURSON: The second issue in a subsequent conversation, both with the Governor's office and Senator Lowenthal, then focused around not the top of the range, but focused around the size of the specific increases that were given to members of the senior staff that are not jobs that were vacant that we're trying to recruit and couldn't recruit because of the dollars.

And the discussion there was that I have heard -- I think it's a fair statement to say I have heard no opposition to setting salaries as we set them to recruit qualified individuals into open positions.

The discussion has really -- as it started to center around the executive director specifically from that discussion, expanded into other positions of those that have been filled and filled for a number of years by current staff.

And I may be wrong, but going back to where we were a year ago, the Board will recall, we were trying to recruit four open positions, two of which were filled at the very end of last year based upon the fact that we had this legislation and those individuals who we had retained on contract then accepted the position on a permanent basis, based on the legislation. Two of those jobs are filled. The other two, which we know, which Terri reported on today, the director of Homeownership and the director of Multifamily, are unfilled.

MR. SHINE: So that, number one, it is the maximum limit that was bothersome to some people; number two, they want to say, "If you've got the job, you get your old salary; but if you're coming in brand-new, you get the new salary."

CHAIR COURSON: I don't think that --

MR. SHINE: Is that an accurate -- is that the way it would work?

CHAIR COURSON: No, I would go a little differently. I don't think anybody is suggesting that the positions that have been filled for a number of years or a period of time, that those necessarily roll back to their old salaries. I think that the suggestion is that they need to be in line with comparable salaries in other agencies.

And specifically, the comment that was made that it seemed appropriate to those making these comments to me, it seemed appropriate that our executive director should be at a salary not to exceed the Secretary of Business, Transportation, and Housing.

MS. GALANTE: And can you articulate what that is? Because some of us don't know.

CHAIR COURSON: Yes, it's public information, because the job was just filled by Secretary Bonner; and his salary is $157,000 a year.

MR. DAVI: So --

CHAIR COURSON: Mr. Shine?

MR. SHINE: Let me go back because I'm kind of a simpleton on this stuff, I don't understand it. But the bottom line then, what you're saying is, the maximum reduction, which was an arbitrary comment, is something that we're thinking we might take a look at in view of the criteria used by the Wyatt company -- that's one issue.

The issue of people that are on the job, having what we approved, reduced to some level, but not for the open positions, will end up with a situation where you have two classes of people: Those who quit to create open spaces for new people of a higher salary, those who stay at a lower salary, and those who come into open positions at a higher salary.

I mean, what if I was executive director and I wanted a salary, if I quit and go away for six months and come back and get hired again because you can't find anybody to do that kind of work for that kind of a salary, do I get the higher salary or the lower salary?

MR. DAVI: Can I comment? Because I kind of started down this path.

CHAIR COURSON: Mr. Davi?

MR. DAVI: Okay, and I'm not talking about that, Director Shine. And I apologize for misleading you on it.

What I'm talking about are positions that are unique to a housing finance agency, whether they're filled or not. And I'm not saying that the director's salary shouldn't be at the level we have approved. I am saying, did we get ahead of ourselves last month in doing all of them at once, in light of the fact that these positions are being looked at by our agency, which we are a part of.

Instead, if we just focused on the two or three -- I count two for sure, maybe three more that are unique to a housing finance agency, total five, and look at those positions for the increase, because that is something that affects our mission, affects the essence of what we do, and maybe is more critical at this time.

It doesn't mean that at the end of whatever process we're embarking on, we don't end up back where we are, in terms of salary of the other positions. That's what I was suggesting.

MR. SHINE: Thank you. That gives me great clarification. But the result of that kind of -- if that's the position we take, could leave us in a situation where the directors of the various sections earn more money than the director and the deputy director?

MR. DAVI: That is correct. Again, it may be temporary, but that is correct.

CHAIR COURSON: Ms. Jacobs?

MS. JACOBS: That happens in my agency.

MR. SHINE: It does?

MS. JACOBS: Trying to focus on the concerns that Senator Lowenthal raised, at the time that the legislation was passed, we had four particular positions that we were recruiting for. And it was the Multifamily, the Homeownership --

CHAIR COURSON: -- chief deputy, and director of Mortgage Insurance.

MS. JACOBS: Okay, so from his perspective, those were the four that he thought we were coming in for the salary increases on?

CHAIR COURSON: I can't respond to that specifically. Obviously, I don't know what --

MS. JACOBS: But he was talking about the unfilled positions; was that not correct?

I didn't get a copy of the letter, so since you've had the discussion --

CHAIR COURSON: Well, let me just -- I'll read you exactly what he said.

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"With respect to the Agency's salaries, I believe that the Board can effectively balance the needs and mission of the Agency. But I

am mindful of the possibility that this salary authority could be used inappropriately. I would like to make it clear that I do not want to see this salary authority used to substantially boost salaries of staff in the years before retirement."

"My support today is to ensure that CalHFA can attract," underlined, *"and retain qualified staff, not to fatten pensions."*

"If I am fortunate, I will have six years left in the Senate. During this time, I plan to monitor salaries at the Agency to ensure that they do not get out of hand."

MS. JACOBS: Okay, from my perspective, the fact that we were able to fill two positions because of the salary adjustments, we really should not penalize those two people because they accepted under the knowledge that the Board had approved a particular salary increase for those two positions.

And the two that we are recruiting for, from the executive director's report, we were recruiting with these new salaries as part of the discussion. So, obviously, the people that we're talking to are under the impression that these are the salaries that they are considering.

CHAIR COURSON: That is correct.

MS. JACOBS: So, I mean, I think those four positions -- you know, whether -- as far as their salaries that they are receiving or projecting to receive, we should certainly honor that. Whether or not we change the range on those salaries is a different question. But that is something I think we should support.

CHAIR COURSON: Let me also make a comment, and this is a thought, as long as we're going to have this discussion -- I don't have the answer so I don't want to muddy what already is clearly a difficult picture -- but I don't know because I haven't asked and I haven't given it thought, but I don't know if the Board, having taken the action in January, has the authority or can go back to individuals whom we have approved a salary, and make a unilateral change in that salary without some action, consent, or activity by them.

I'm not suggesting, I just don't have that answer. And that clearly -- I know counsel clearly, it would take some research, but it's a question that's in my mind.

I don't know what our authority is to undo something along the lines of salaries we've approved, without involvement of the individuals of each of those positions.

MS. JACOBS: Yes, I agree with that giant question mark. And that's why I thought that perhaps we could request a reconsideration, get the research that we need, and then have a special meeting. That would be my thought.

CHAIR COURSON: Mr. Pavao?

MR. PAVAO: A point of clarification.

So are the salaries that we approved in effect, and is the answer "no"?

CHAIR COURSON: The answer is no.

MR. PAVAO: Okay, so in a sense, we would be unwinding the decision, but they're not yet in effect?

CHAIR COURSON: My understanding is that the Department of Personnel Administration has said that they would not process the paperwork until the maximum of the salary range was reduced to the salaries we had approved.

MS. PARKER: Mr. Chairman, maybe I could clarify that.

CHAIR COURSON: Ms. Parker?

MS. PARKER: Because I actually reread the e-mail that I had gotten on this.

And the e-mail essentially said that, as a result of the meeting in the Governor's office and the understanding that the Board Chair would be taking this item back to the Board, that the document that the DPA has to process from a ministerial standpoint has both the salary range on it and the specific salary.

And their concern was that they didn't feel that they could process these ministerial documents now because the understanding was that the Chair had said that it was likely or committed that that salary range would be brought down.

So the document, the e-mail to me said they are looking for that resolution to be sent back to them with the lowering of the salary range in order for them to process the documents.

MR. SHINE: The maximum --

CHAIR COURSON: Let me be clear. The conversation I had with the Governor's office, I would bring back to the Board and I would recommend a reduction in the maximum.

There was no discussion about what that reduction would be, or we'd be back to the existing salaries or anything such as that.

MR. DAVI: All right, I have a question.

What date was that e-mail sent to you, Ms. Parker?

Okay, and while you're looking it up, obviously, I've only been in state government less than three years; but when these things are approved, even at the Legislature, they still have a process to go through, through DPA, I would be very surprised if an employee relied upon something like this from our January 18th meeting with knowledge that there were these hiccups. Because if DPA doesn't finally approve it, it hasn't adjusted your --

MS. PARKER: Mr. Davi, there is no requirement that the Department of Personnel Administration approve them.

MR. DAVI: Process them and start paying you.

MS. PARKER: They essentially -- it's a document that is sent to the Controller's office. It is a ministerial document; it's not an approval document.

And, in fact, in the meeting that the director of the Department of Personnel, when asked, were these documents then going to be processed, said, quote, "I have no legal authority to do anything other than that."

MR. DAVI: I'm just saying, I don't know why an employee would rely upon that until he or she sees the benefit in their employee compensation, that's all I'm trying to say. But I understand what you're saying.

Obviously, that meeting that was called upon you both should have alerted you to some concern. And, of course, your commitment to just bring it back with no commitment as to what you would do, I hope that your actions from that point forward weren't to go sign up the employees and get them on -- that doesn't make sense.

So I hope we don't have a problem with where people were promised something they shouldn't be promised. Clearly, this was coming back for discussion at some time.

CHAIR COURSON: My commitment to that meeting was to bring it back and recommend a reduction. I did do that.

And, frankly, I would say that the only thing that the affected positions know are the Board approved a change in their salary, an increase in their salary in January; and until, frankly, this meeting maybe 30 days ago, which was 30 days after our Board meeting, had no reason to believe that the normal course of business wouldn't process the paperwork and implement the increases.

Ms. Galante?

MS. GALANTE: Again, just a point of

clarification on the maximum salary versus the salary adjustments that the Board approved. If we did what you told the Governor's office we would look at doing, which is to change the maximum ranges, that would not actually affect any of the salary increases that individuals obtained; is that correct?

CHAIR COURSON: That is correct, based on the first meeting.

Then the specific discussion regarding specific salaries -- in particular, the executive director and subsequently other positions -- came later. So that was -- there were two different --

MS. GALANTE: This goes back to the --

CHAIR COURSON: -- which I made no commitment on there, other than I said to the Governor's office and to Senator Lowenthal, that we're having a Board meeting and I will give everybody a full and complete briefing, and we'll decide what their will is.

MS. GALANTE: So I could see changing the maximum ranges down some. That would give us an opportunity when we redo this next year, to make sure that we're adequately understanding the implications -- of the defined benefit, the defined pension plan, and whether that would have any more detailed effect, which I think was Mr. Morrison's concern at the time, but not necessarily -- and so we could achieve one objective by doing that as may be an incremental step the way Mr. Carey was suggesting.

I guess I, again, will go back on record that I would have a very difficult time on an equitability issue. Frankly, you might get into some gender-discrimination issues or other kinds of issues, or age-discrimination -- all kinds of things by having -- you know, making these arbitrary -- I think it would be arbitrary to say we are going to increase these vacant positions, but we are not going to increase the existing personnel's position.

I just think we are on, frankly, in my view, from a business standpoint, from a moral standpoint, from a legal standpoint, I think we're on tough ground.

CHAIR COURSON: Mr. Pavao and then Ms. Parker.

MR. PAVAO: Just a clarifying question.

So I guess it was Senator Lowenthal who was most concerned -- and I forget the exact phrasing about the increases for existing personnel. And was it "substantial increases," or what --

CHAIR COURSON: *"I would like to make it clear that I do not want to see this salary authority used to substantially boost salaries of staff in the years before retirement."*

MR. PAVAO: Right. And so I guess I'm hearing in that -- I'm not hearing necessarily a suggestion that existing personnel be frozen where they are, that is, some increase of existing personnel, even in Senator Lowenthal's letter seems acceptable.

And then also I guess just to follow up on Carol's points, it seems that the least-troubling part of this is ratcheting back the maximums. That is, it seems like on one level, sort of an academic exercise, especially understanding this is going to be an annual iterative process. And so I, for one, am ~~at~~ least troubled by that proposal. The more troubling part of this is unwinding what we decided just back in January.

And that brings me then to the other specific suggestions. And, again, this is in the context of these are very important audience members here. That is, when the Governor's office says, "I want you to consider going back and doing something," it seems incumbent upon us to consider that very carefully.

But if I understand the course of this discussion, that would, as a practical matter, mean winding back -- and here's where I'm seeking some clarification -- some or all of the salaries to -- was it $157,000?

CHAIR COURSON: The only discussion of $157,000 was in relationship to the executive director; and that position, in the minds of those in the Governor's office, should not exceed the BT & H.

MR. PAVAO: So that's the $157,000.

CHAIR COURSON: There was no discussion about levels for the other jobs.

MR. PAVAO: Okay, well, that helps.

And then the other thing I would echo is Director Jacobs mentioned that in state service, it's not that unusual to have technical positions earning more than administrative or executive positions. It's not unheard of, and that's probably why the Governor doesn't have the highest salary in state service. So in that context, that helps in terms of narrowing down sort of what we're up against here.

And again, I would just say for the record, I would not be troubled voting down the maximums, understanding going forward we're going to revisit that on an annual basis.

CHAIR COURSON: Okay. Terri? Ms. Parker?

MS. PARKER: Do you have something, Mr. Chairman? I would hate to --

CHAIR COURSON: Well, here's what my thought is. On one piece -- we have two pieces: We have the salary maximum ranges -- and we've agendized them that way -- and

MR. PAVAO: Right. And so I guess I'm hearing in that -- I'm not hearing necessarily a suggestion that existing personnel be frozen where they are, that is, some increase of existing personnel, even in Senator Lowenthal's letter seems acceptable.

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CHAIR COURSON: The only discussion of $157,000

we have the specific salaries. If I sense -- I can just seize the moment -- if I sense there might be a consensus building to move the maximum ranges down, I guess while that thought is alive and kicking, maybe we should deal with that one, and then move on to the specifics of the salaries.

MS. PARKER: Mr. Chairman, maybe I need to make my remarks now, because I think depending on what I say, it may change what is with respect to the numbers in the range.

CHAIR COURSON: I will defer to the executive director.

MS. PARKER: Thank you.

Mr. Chairman and Members, maybe just if I could step out of my role as the executive director and as a person, an individual, and say that this has been a very, very difficult process, a very difficult time. Clearly, at the end of the day, my interest in the success of the Housing Finance Agency is the highest priority, and that it be successful and ongoing, and commit to the level of quality and caliber that it has operated over the years.

This is not only difficult for me, but it is difficult for all of the staff, the other executive director -- or exempt appointments that the Agency and the Board is dealing with.

Frankly, we would not like to have this be on the radar. We'd like to be able to go back to doing our work. There is a lot of work for us to be doing, as we'll talk about when we get to it, what we want to present to you for our next business plan.

I have listened to all of these discussions, and I certainly want to say that I fully appreciate the support of the Board for myself and for my staff. But I think that -- and I've talked with Senator Lowenthal yesterday; and when I have read his letters, I do feel it is the responsibility on my part to come back and say to you that since I probably have the biggest red circle around myself of being closest to retirement, I really don't think -- it maybe includes one or the other of the employees, but it's really not an issue for 90 percent of what you've looked at. But I am. And my position has been the position that has been talked about in the papers the most, and has called the most attention.

And for me, personally, I would like to see the Board be able to continue to feel good about the salary survey process. I believe we asked all of the appropriate people what should be considered in that salary survey. We followed what DPA told us. We believe that we did it the right way. If we got ahead, maybe it was unaware of what other things were occurring.

But with respect to Senator Lowenthal's issue -- and he goes back to this concept of how big is the increase. And when I talked with him yesterday, I said to him that I am prepared to go back personally and ask my Board to have my salary reduced, that I do not want to be a lightning rod for this organization. It's just not personally worth it to me.

But I told him I did need to have some sense from him about what he thought was fair and reasonable, that there were a lot of numbers there, and that I didn't want to pick a wrong number.

And when we chatted on the phone, I said to him that the salary survey that was done that looked at the other colleagues of mine, other executive directors across the country, of which you adopted a range from, set salaries at the 25th percentile, the 50th percentile, and the 75th percentile.

And at the 50th percentile, the number was approximately two hundred seventeen, but as following the Watson Wyatt advice to the Compensation Committee, they set a very large range.

The 25th percentile was 175,000. And Senator Lowenthal also said that he had no problem -- I will give you his paraphrasing -- that he actually had no qualms about the fact that the salary -- my salary, as the Board adopted, was not reasonable. He was concerned about the implementation of it and the excess at one point in time. He said he was more than willing to -- he thought it would be a fair process if the Board essentially set my salary; and then, in the next year, increased it towards getting to a particular point in time.

So I told him that I was going to come back today and ask my Board to essentially set my salary so that we could essentially hold faith with a salary survey, at the 25th percentile at 175,000.

And so I leave that with your consideration.

The question that the Chairman has raised about whether or not the Board has the authority to unwind something that has been made as a commitment, in this particular case, I think since I am asking it of you, that is a differential. I have not had any conversations, nor with any of my other staff about that. I can only speak for myself personally.

Thank you.

CHAIR COURSON: Comments from the Board?

MR. DAVI: I mean, I just want to say to our director, I wasn't expecting you to do that; and I appreciate what you said and all of your leadership in this organization for the years you've been here.

I am also not one to say that I am an advocate for not increasing the salaries of our senior staff. I was simply saying, I'm an advocate for reconsidering what we did and incorporating the process currently underway, under the Agency.

And at the end of the day, I do believe the salaries will be increased. And I don't know what level they'll be, but I'm just not saying, "Go back and not increase the people that were here." I want to make sure everyone understands that.

MS. PARKER: Mr. Chairman, I'm not sure of my remarks, if I included this, so I just want to say again that --

CHAIR COURSON: They can't hear you.

MS. PARKER: -- that I did specifically ask Senator Lowenthal how he felt about 175. And his response back to me was, he felt that was a reasonable increase and that it was fair. And those were his words.

CHAIR COURSON: Mr. Carey?

MR. CAREY: I do appreciate that willingness. I'm disappointed that we find ourselves in the middle of such scrutiny that has us perhaps considering something that isn't the best business sense but fits into the public scene.

While I would -- and maybe it's just my own resistance -- I would like to suggest that as we consider reducing the maximum ranges -- somebody said earlier, perhaps within 5 percent of what we've set as the salary levels --

CHAIR COURSON: I think that was my comment.

MR. CAREY: -- but that we leave -- that we not reduce the executive director's to that level, but reduce that to 200,000, just as a way of keeping the point.

CHAIR COURSON: Let me make sort of a comment on that.

The chart we're looking at that we approved with the mid-points, low, and maximums, the mid-points would stay the mid-points. This is out of a -- this is a survey that we approved. You can set salaries.

Assuming -- for example, taking the executive director's comments she just made, if, in fact, her salary were established at one seventy-five, this chart still works -- I mean, there is still a mid-point and a maximum and a low, it's just that her salary has been established as something below the mid-point.

MR. CAREY: I'm sorry, were they not asking that we reduce the caps, the maximums?

CHAIR COURSON: Yes. But all I'm saying is that -- let me give you an example, and let's use -- since the executive director has put a number on the table, let me use that.

If the Board decided that they were going to reduce the maximums of the salary ranges, or the maximum would not exceed 5 percent of the mid-point, the maximum range for the executive director would be 210,000 as opposed to 250,000, if you chose to do that.

The actual -- if, in fact, the Board makes that decision to change the executive director's salary in accordance with her suggestion, her actual salary would be 175,000. All that means is that instead of she now being compensated at the mid-point of a range, she is compensated below the mid-point.

And then that would follow -- and if you took that, I will tell you that 5 percent on our Grade 2 would cap at 189,000. On salary Grade 3, it would cap at 168,000. On Grade 4 -- which I will tell you, on Grade 3, in the instance of the general counsel, the approved salary would be $2,000 higher than the maximum in the range. In Grade 4, a 5 percent would be 131,250. And in Grade 5, it would be, clearly, 105,000.

That establishes -- so that caps -- so you've still kept, in effect, your salary-range work that you've done, based on Watson Wyatt and the other surveys. You've kept that, you've established mid-points and so on. You're setting the compensation at a different point in the salary-range matrix that we have.

MS. JACOBS: Mr. Chair, I believe you made a suggestion days ago, it seems like, that we do this in two segments.

CHAIR COURSON: I think there are two different issues here, yes.

MS. JACOBS: So if I may, may I make a motion?

CHAIR COURSON: I would like the range first, if I may suggest.

MS. JACOBS: Yes, that's where I was thinking I could survive a motion.

I move that we reduce the salary ranges so that the maximum is 5 percent over the mid-point of the current salaries, with the exception of the general counsel, that we make the mid-point commensurate with his salary at the moment.

Does that do it? I'm trying to figure out --

CHAIR COURSON: May I make a suggestion?

MS. JACOBS: Yes, you may make a suggestion.

CHAIR COURSON: The suggestion is -- I'm just suggesting.

MS. JACOBS: Yes.

CHAIR COURSON: But in following with this --

MS. JACOBS: It's not a real motion because I don't have a second.

CHAIR COURSON: In the spirit of what you're doing, why doesn't the Board just establish a dollar figure maximum going through here; and when we get to salary Grade Number 3, rather than 168,000, we could call it 170,000, and then we've covered ourselves?

MS. JACOBS: Okay. I move that we establish the following maximum points:

For Grade Number 1, 210,000;

For Grade Number 2 --

CHAIR COURSON: One eighty-nine is 5 percent.

MS. JACOBS: 189,000.

MR. SHINE: We should round it up.

CHAIR COURSON: Whatever you want to do.

MR. SHINE: 190,000.

MS. JACOBS: 190,000.

For Grade 3, 170,000.

For Grade 4, Mr. Chairman, may I ask for your help on that?

CHAIR COURSON: 131,000.

MS. JACOBS: 131,000.

And Grade 5 --

CHAIR COURSON: 105,000.

MS. JACOBS: 105,000.

MR. SHINE: That doesn't touch anybody's salary?

MS. JACOBS: Actual salary. No, this is the maximum.

MR. SHINE: It doesn't touch any -- the executive director --

CHAIR COURSON: No, no.

MS. JACOBS: Maximum range.

MR. SHINE: We could go with that.

CHAIR COURSON: Is there a second?

MR. SHINE: I'll second that one.

CHAIR COURSON: Mr. Shine seconds.

Is there further discussion?

(No audible response)

CHAIR COURSON: Are there comments from the public?

(No audible response)

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

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: It has been approved.

CHAIR COURSON: Okay, thank you.

Now, the issue is the compensation.

And I think -- and let me just, having said this, the executive director, clearly Terri has answered one of the questions I had, which is can the Board move forward in adjusting any previously approved salaries on a unilateral basis without some further research about dealing with those whose salaries have been adjusted.

My thought is that in Terri's case, where she clearly has come forth and affirmatively said, "Yes, I would," for the reasons she expressed, I think very eloquently, "recommend to the Board that my salary be reduced to one seventy-five," I think we avoid the issue of what you can or can't do with those who have not voluntarily come forward.

Is there a motion? Does the Board choose to take any action?

MS. JACOBS: I have a question, if you don't mind, before -- I love making motions, but I have a question.

With the other HFAs throughout the country, how are the executive directors hired? Are they hired by the Board or are they appointed by the Governor -- or Legislature or whatever?

CHAIR COURSON: I'm going to let Terri respond.

MS. JACOBS: Let the real executive director respond to that.

Or does it vary state by state?

MS. PARKER: I think, Lynn, it really is -- it varies state by state.

There are some HFAs that are totally independent entities, one or two that are very unique. And they've happened probably in the last five years since I've been here because of issues not dissimilar to this. Some of them, very small ones, are very much -- they're a traditional state agency. Most are probably sort of in the middle of where we are, in that they are quasi-governmental. And most of them serve at the pleasure of either their Board or their Governor.

I think I'm very unique in that I have a term appointment. Let me just point that one out. Because my colleagues, agency secretaries and department directors, I believe I am -- the executive director of CalHFA is the only position in state government as a director of a department or agency secretary that has a term appointment. And it was done, you know, by the founding fathers with the idea to provide continuity and assurance to the rating agencies that, while there would be changes with elections and whatnot, there would be continuity. And so that's why there is the term appointment.

So I don't think that there are very many of any executive directors across the country that have term appointments; but I think there's everything that you could find -- appointed by the Governor, appointed by the Board. But I think rarely is there a term; and then some of them, obviously, if they are part of state government, they could even be hired by, you know, neither the Governor nor the Board, but by whoever was a senior person in their agency. I mean, there are some very small ones, like, Nevada and whatnot.

But if you looked at the ones equivalent to us, they are probably either a gubernatorial appointment or a board appointment and in that sense, serve at the pleasure of those two entities.

CHAIR COURSON: Any other questions? Comments? Other actions the Board would like to take in relationship to the executive director's salary?

MR. DAVI: Should we formally consider her request of the one seventy-five? I mean, I --

CHAIR COURSON: It clearly is an action the Board would take, if they so desire.

MR. DAVI: I'd like to move that we accept her request that the salary be reduced to one seventy-five.

MR. SHINE: For this year.

CHAIR COURSON: For the current year?

MR. DAVI: For the current year.

CHAIR COURSON: Is there a second to that motion?

MS. JACOBS: I'll second it.

CHAIR COURSON: Ms. Jacobs seconds.

Discussion?

Ms. Galante?

MS. GALANTE: You know, I understand the direction this is going, and I really appreciate Terri's selflessness here in offering a compromise that deals with the political sensitivity.

I am going to vote no.

CHAIR COURSON: Okay. Are there other discussions or comments?

Mr. Carey?

MR. CAREY: Just to, I think, follow on that, I'll vote "yes" because I think -- I appreciate the selflessness of it and the need for us to be sensitive publicly, but it is not the right salary.

CHAIR COURSON: Other comments?

MR. SHINE: Is it imperative that we take this vote today?

Inasmuch as we have not addressed the second part of the issue, which is everyone else, then as classy a move as it is by the executive director, it doesn't really address the issue. And the issue is, I hope, all of the staff that's on the page, the ten positions on the page, that's what's at issue.

To deal with one of them and leave the rest of them alone, if you take them one at a time over a period of months, I would request that the Compensation Committee having been given the direction by the Board to modify the maximum salary range, then address the issue of those ten positions, acknowledging what has happened here today, and come back with a recommendation that we can look at the whole package at one time.

MS. JACOBS: Why don't you pipe up before we make these motions?

MR. SHINE: I'm going to ask the maker of the motion if they'll allow that as a modification.

CHAIR COURSON: I'd just like to make a comment. I really think that the Board needs to give some direction to the Compensation Committee on what you want to do. We've had a lot of different discussions here.

We've had discussions of can we or can we not unilaterally modify previously approved salaries. We've had that conversation.

We've had conversations that we should have two different processes, two different bases for setting salary: One being for positions that have been or are open for which we're recruiting, and the other, a second methodology for those who are -- for positions that are currently occupied. So we've had that discussion.

We've had a discussion about adjusting just the executive director's and doing nothing to the others.

So I really sense that the Board needs to come to grips with what you would want the Compensation Committee to do.

We've done our work, and we have come forth with salaries based upon the best information that was available to us, in compliance with what the statute said.

And so to just send it back, Mr. Shine, in all due respect, it's worth throwing this hot potato around, and at some point I think the Board has to come to grips with what is the methodology, how are we going to do this.

Mr. Carey and then Mr. Davi.

MR. CAREY: To me, actually, at the moment, if we'd step back, it's fairly simple. We established what we thought was a reasonable compensation for the position. We have a director whose requested something less than that, and it seems a fairly simple business decision to say, "Okay."

MS. JACOBS: And leave everything else the same?

MR. CAREY: And leave everything else the same.

CHAIR COURSON: Mr. Davi?

MR. DAVI: As the maker of the motion, I think we should do that. I was contemplating a motion following this that would potentially give direction -- it may not be passed -- but for the remaining positions in light of what we've talked about today, I am not comfortable unilaterally changing what we did last month of the people that haven't voluntarily done what our director has done because of what's been said. So we would need direction from legal counsel. And that's another process that we have to take later on.

I would rather just vote on this motion and move on.

MR. SHINE: Well, what about getting our eraser and undoing the motion that we have on the floor? And if that's what you all are talking about, and we're going to accept what Terri has said and want to accept what -- what we're doing here then is validating our decision on this whole thing, subject to a change for the executive director.

CHAIR COURSON: The motion on the floor is to approve the request of the executive director that her salary be reduced to $175,000 for the current year.

MR. DAVI: Right.

CHAIR COURSON: The motion made by Mr. Davi and seconded by Ms. Jacobs. That's the motion on the floor.

MR. SHINE: I'd like to amend the motion then to include the following: "and that the rest of the salaries set forth on the schedule remain intact."

MR. DAVI: I'd rather not talk about that as part of this motion. I'd rather not accept it as an amendment.

CHAIR COURSON: Okay, he does not accept it as an amendment.

Ms. Parker?

MS. PARKER: Mr. Chairman, I guess I will make my pitch again for the Board members to take action on my salary at this point in time.

The reason why I ask you to do that is, again, this position, my salary range, has been in the paper a number of times. There are other salaries that had been changed by the Governor's office that will be higher than this, if that is the case. It still will be higher than

I believe what the Governor's office may want.

However, if it is a situation that DPA follows through with what they have said to us, that once we bring the ranges down, they will follow through and process the paperwork, I think it is important that the executive director's salary from the very beginning in January be set at 175,000. Otherwise, if you don't do that, then it continues to perpetuate the fact that I should be earning 200,000. That is what I'm legally entitled to by your action in the past.

And so I would not want it to be a situation where that continued to hang things up, the salary for the executive director, and hopefully the salaries for all of the other senior managers can go forward, and you can look at the changes that you want to make with those salaries prospectively.

CHAIR COURSON: Is there any further discussion? The motion --

MS. JACOBS: Yes.

CHAIR COURSON: Ms. Jacobs?

MS. JACOBS: I think the issue is whether or not to have two separate motions here.

MR. DAVI: Correct.

MS. JACOBS: And I think what Director Shine wanted to add as an amendment would be going in the opposite way of the second motion that Mr. Davi wants to make.

So I just am commenting, I'm not amending the motion. I'm just saying that I expect another motion on the rest of the salaries. This only, at the moment, is for the executive director's salary.

CHAIR COURSON: That is correct.

MS. JACOBS: It's not commenting one way or another on anybody else's salary.

MR. DAVI: Correct.

CHAIR COURSON: That is correct.

Is there any further discussion on the motion?

(No audible response)

CHAIR COURSON: Is there any comment from the public?

(No audible response)

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

MS. OJIMA: Thank you.

Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: No.

MS. OJIMA: Thank you.
Ms. Jacobs?
MS. JACOBS: Yes.
MS. OJIMA: Mr. Pavao?
MR. PAVAO: Yes.
MS. OJIMA: Mr. Shine?
MR. SHINE: Yes.
MS. OJIMA: Mr. Courson?
CHAIR COURSON: Yes.
MS. OJIMA: We have a quorum.
CHAIR COURSON: A vote with six affirmative votes is a quorum to pass the amendment.
MS. OJIMA: Correct.
CHAIR COURSON: Is there further discussion on the topic of compensation?
MR. DAVI: Yes, Mr. Chairman.
Thank you, Director Parker, for what you voluntarily offered.
And if I can, just to follow through what we've been talking about -- and I actually am reacting to what was said -- I agree that I'm not comfortable doing something with the salaries of the positions from January, having us take that formal action without some kind of report that we have that ability. And, of course, if we do it, what the ramifications of such an

act would be. So I would move simply that we get direction from Legal as to whether we have the ability and what the effect would be if we want to reconsider those remaining nine positions' salaries, and have them report back to us next month, and put it on the agenda for that report, and then make a decision next month whether or not we want to do this.

CHAIR COURSON: Our next meeting will be in two months.

MR. DAVI: I'm sorry, two months.

CHAIR COURSON: Is there a second to the motion?

MS. JACOBS: Second.

CHAIR COURSON: There's a second.

Is there discussion?

MR. HUGHES: Mr. Chair, I'd just like to point out, I do think -- I was wondering what the motion was going to be and whether this was a matter that was agendized.

I do think this falls within Item 8, subsection (i), which is development of compensation policies and procedures. I think that's a fair motion under the open meeting laws.

I have to say that, not having anticipated exactly this direction, I will have a conflict of interest. I can't give you that advice because it affects my own salary. So the process that I'd envision is that I would have someone else do that, basically. I'm not sure who at this point.

CHAIR COURSON: Fine. I understand.

I have to say, I heard Mr. Shine saying something quite different than the point made by Mr. Davi. And the only other issue I raise is, in fairness to the people affected here, they really should start getting paid something more than what their previous salaries were based on -- I mean, there's nobody arguing they shouldn't have an increase. And, now, we are 60, and could be going on 120 days without paperwork being processed for them by DPA because I could imagine that if, in fact, it's, quote, "under advisement," we're researching what we can or cannot do, that that could be a reason for DPA saying, "Well, until you decide what their salaries are truly going to be, we're not going to process the paperwork."

I don't know that for a fact, but it would be a concern to be considered.

Mr. Shine?

MR. SHINE: I thought I just heard that if we passed this salary adjustment of the executive director and dealt with the maximum rate, that that would remove the logjam and that we will be processed. If it means we would be processed, it seems to me that you've got to be processing something. And what they're processing is this chart with that one modification.

CHAIR COURSON: That's correct.

MR. SHINE: And that's where I've been trying to go.

CHAIR COURSON: That's correct.

MR. SHINE: Okay, well, then I'm satisfied.

CHAIR COURSON: Assuming that they will. I mean, they -- I don't know how you avoid not processing the paperwork.

MS. GALANTE: I'm sorry, now I'm really confused.

Are you saying, if we pass this motion, that the personnel board is still going to continue to process the -- the people who are in positions with the current salaries, that report? I just don't --

CHAIR COURSON: Here's what --

MS. GALANTE: I just don't understand.

CHAIR COURSON: Here's my concern. Here, I'm just going to tell you my concern. My concern is clearly the paperwork should be processed. We've talked about, it's a ministerial job for them to process this paperwork. Clearly, it has not been processed. We have done what I was told needed to be done to get that paperwork moving; and that is, we've adjusted the maximums of the ranges.

We have done the second piece, which responds to requests from Senator Lowenthal and the Governor's office in dealing with the executive director's salary.

If the Board decides to take another step, which is now to research the Board's authority to change the salaries of the other ten positions -- other nine positions -- all I'm suggesting is if we move down that path, I might envision the Department of Personnel Administration will say, "Until you make that decision, you don't really know if they're going to reconsider, if they're going to be lower or not, we're not going to process the paperwork." That's my only concern.

MR. DAVI: Can I clarify the motion, if it's okay, for the director?

That is a possibility, but that's not the intent of my motion. I just wanted -- I would like the process to go forward and the paperwork to be processed pursuant to what we've agreed at this point were the changes. However, I would like some report from Legal to say if we would like to, could we change these salaries at the next meeting? And that's the question.

So I don't want it to hold up anything. In my mind, they would both go forward.

MR. SHINE: Are you withdrawing your motion then?

MR. DAVI: No. I thought I was clarifying.

MS. JACOBS: As the seconder, I will echo the points that the chair made in that whatever our intention is with the motion, we cannot preclude what action the Department of Personnel takes. But I'm still supporting the motion, as it was made. That doesn't mean that --

MS. GALANTE: Mr. Chair?

CHAIR COURSON: Ms. Galante?

MS. GALANTE: You know, where I think I am is, I would be voting against the motion. I think we have got two issues: You've got the people in process -- or, you know, existing personnel whose salaries are in process; you also have the recruitment process. And if we don't even get a report back on this motion for two months at our next meeting, we are now holding up recruitment of these two key positions. And I just think we're going down a really slippery slope.

If we have dealt with the two large political issues out there -- I mean, I'm not happy about the discrepancy that this creates between the executive director and new recruits recently and otherwise; but I think, you know, that's about the best place we could be at this point, to move the rest of these forward.

Again, it does not mean that we cannot reconsider these on an annual basis. And we have lowered the maximum -- at least for the moment, we have lowered the maximum range.

MS. PARKER: Mr. Chairman, let me say that I think we probably will internally look at that question irrespective of the motion. But I would also point out that in my discussions with people so far about these positions -- and there's been a number of people that we've talked about the Homeownership and Multifamily -- they continue to -- since they are bankers, from the outside world, really want to focus on what it is like for them to work in government and how to understand government.

Some of them, in order to understand what we do, we have asked them to -- suggested that they might want to read some of the Board minutes, get some perspective of what this Board does.

So I just want to provide that as a comment from the standpoint of really wanting to bring back to you quality candidate people, but essentially say that I think that, depending on if people felt that their salaries could be -- that that would make it very difficult, I believe, to hire --

MS. GALANTE: The salaries could be changed, you know, every couple months?

MS. PARKER: Or that there was some sort of uncertainty about it.

As I said, I'm just trying to be responsive to what you want from the standpoint of us carrying out a business plan.

CHAIR COURSON: Mr. Shine?

MR. SHINE: I share Carol's -- excuse me, Director Galante's sentiments because I think this is the kind of thing that one makes as a request of someone else on staff, doesn't require an amendment, and doesn't require us to appear as though we have a policy that we're getting ready to make changes.

So while I understand what's trying to go on here, it's a matter of how you go about it. And I'm going to have to vote no.

MS. JACOBS: I'd like to call the question.

CHAIR COURSON: All right. Call the roll.

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: No.

MS. OJIMA: Ms. Galante?

MS. GALANTE: No.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: No.

MS. OJIMA: Mr. Shine?

MR. SHINE: No.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: No.

MS. OJIMA: It did not pass.

CHAIR COURSON: The motion fails.

Is there anything further to come before the Board in regards to compensation?

I would suggest, and I will take my lead from the other directors, but what I'm hearing, everyone, is that we now -- and I can do this by a letter, or how we would want to craft it -- are requesting DPA now to process salaries and proceed to do whatever ministerial work they must do.

MR. DAVI: Yes.

CHAIR COURSON: And I would like, I guess, the record to reflect that the Board, whether we need a motion on that or whatever, but clearly, I think it is important for us to now make that specific request of DPA, that they process that paperwork and perhaps a motion might be in order along those lines.

MR. DAVI: I don't know, can we do that without it being properly -- I mean, I think the direction of the Board is very clear, and I think you got it from this meeting, clearly --

CHAIR COURSON: I'll proceed as chair to make that request, and we can certainly use the page after page of verbatim testimony and the minutes we have here to show them the intent of the Board. Fair enough.

MR. DAVI: That's very clear.

CHAIR COURSON: Thank you, all.

To Terri, I thank you. This was a difficult situation. It's always a difficult topic.

I appreciate the Board. You know, we read a lot about boards in California state government these days, and I think we can all be pretty proud on the discussion and the way we handled ourselves today, whether we agree or disagree, and the results we've come up with. So I think it's a tribute to all the directors.

Having said that, Item Number 9, a progress report on the development of a CalHFA five-year plan.

Oh, I'm sorry, I'm sorry. I have one other thing. I assure the Board that this was not intentional. I am sometimes mathematically challenged. I have led us astray on the maximum salary ranges.

MR. DAVI: I thought so.

CHAIR COURSON: And I must apologize profusely to Ms. Jacobs for leading her down this path.

On Grade Number 4, we said that the salary -- the maximum salary range would be 131,000. And I will tell you, our fairly newly hired risk manager has a salary of 137,500.

Counsel, can we go back --

MR. DAVI: Treat it as a typographical error.

CHAIR COURSON: -- and modify it as -- if there's a unanimous consent, can we go back and modify the motion to reflect 137,500, if it's the Board's will?

MR. HUGHES: Yes, I think that's acceptable.

MS. JACOBS: So moved.

MR. SHINE: Second.

CHAIR COURSON: Any discussion?

Call the roll.

MS. OJIMA: Thank you.

Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.
MS. OJIMA: Mr. Shine?
MR. SHINE: Yes.
MS. OJIMA: Mr. Courson?
CHAIR COURSON: Yes.
MS. OJIMA: It has been passed and approved.

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Item 9. Progress Report on Development of CalHFA Five-Year Business Plan

CHAIR COURSON: Okay, Ms. Parker?
MS. PARKER: Okay, Mr. Chairman. Thank you.
I hope to turn the environment around here to talk about the excitement of what the staff have come up with as a proposal for your consideration for our business plan for your adoption in May of 2007. This would be our five-year business plan.
The staff has met a number of times internally to have discussion about what we thought was in keeping with the philosophy and the guidance and the oversight that the Board has given to the staff about what directions that you want us to proceed to try to deal with the crisis in affordable housing in California.
We began our discussions by, first of all, looking at where we were with our overall balance sheet. And I think that this has proved very useful for us, the

work that's been done by this agency in the last couple years and some of the presentations that we have done for the Board on where we are with our overall balance funds. We can put together a business plan with some predictability for our stakeholder and customer groups about what programs will be there not only for the next year, but the years in the future.

And since we do, as we've said, create our own housing resources, we don't rely in any way from any sort of proceeds of taxes, that we need to be concerned about what products that we can produce in order to create revenue to keep ourselves in business and to repay our investors.

We initially have also brought into the work that we've done here, discussions with stakeholder groups about what's happening in the marketplace for what might be some considerations of new products or our goals that we need to achieve. I would only, before I start going through my presentation, make one caveat to that. At the moment, it was put together by the teams that we have in place in Homeownership and Multifamily. I do think it really speaks to both of them, that with the senior position unfilled for well over a year, the work that both of those groups have -- our staff have done, has been phenomenal.

And while certainly on Homeownership we have been able to meet and exceed our goals in the past, Multifamily, we really look at this from the standpoint of going through a transition. And not only with the hope of being able to hire a new director for that additional leadership and what happens in the marketplace, I think that the staff -- I just want to say that the staff -- what we have come forward is what we would hope would be at least a proposal given where we are today. But if this environment changes, we would always be challenging ourselves to look forward to new opportunities.

So with that, Mr. Chairman, let me just go -- the next slide is really an overview of what we're going to talk about. We're going to talk about special loan programs and those initiatives.

This is really -- we've tried to essentially say, if you as the Board want to give us directions of how to use our resources, our housing trust resources, what is our highest priority in the utilization of those resources to meet overall goals in Homeownership, Mortgage Insurance, Multifamily, and Special Lending Programs. We also want to touch on what we need to be doing with our portfolio, given the issues that Margaret raised earlier.

So I'm going to just take them in order. But really, I think, in order to not do these by individual programs, the major decision is really on the next page. Because this is where the housing trust funds that the agency, and Bruce's calculations with his crackerjack team, have made the recommendation and guidance that we should probably try to keep our HAT-funded programs about the seventy, seventy-two million-dollar range. That we believe that where we are at right now with our profitability -- and that's just the returns on our loans and the prepayments and everything that we have had, and I think we've told you at our previous meeting, that we did our profits; and I'll make sure that we have an update for you from our accountant, that our profits have exceeded where they were the prior year. But we think that 72 million is a reasonable amount for us to maintain our financial and fiduciary responsibilities, but at the same time, challenge to leverage the maximum amount of the housing trust fund resources to do the kind of business we need to out in the state.

So we've broken it down to what our proposal would be, which is approximately $31 million of HAT funds to be used for downpayment assistance programs. This is based on a formula that Jerry and his folks have put together, assuming that we would do 1.5 billion dollars' worth of lending. That we continue -- we've put the SHBAP program at 1.3. This is a program we have traditionally kept at 2.5. We have not had call for it for that great of amount. I think we would continue to work as aggressively as we have in the past to do as much business as we can in this area. We also wanted to not have funds put in an area where they might not be utilized, if they could be utilized more aggressively someplace else.

We have proposed a 10 million-dollar commitment to a residual gap loan program. And Laura is certainly here to talk about this. It's one we started this last year. We haven't done much activity with it. But we hope with some of the other proposed changes that we'll talk about under Multifamily lending, that this will be some money that can really kick-start our Multifamily lending program again.

We've also proposed to commitment $10 million to continue to go through the portfolio, as I mentioned, with Jim Liska and the work of Margaret's crew, to see where we need to shore up some of these projects that have been on our portfolio for quite some time and may need some assistance.

Obviously, we'll be coming back to the Board for anything that's approved with those funds.

And then under Special Lending, we have proposed $5 million for Habitat For Humanity, $15 million for HELP.

And that adds up to approximately $72 million of Housing Assistance Trust funds.

We've also put down on this paper for your consideration the two other sources of funds that really feed into the initiatives, and, primarily, the next column is funds that come from either Prop. 46 or Prop. 1C. The first one being funds for downpayment assistance, and we are estimating about forty-seven, forty-eight million dollars of those funds to be used for downpayment assistance.

The other is $40 million for our Residential Development Loan Program. And we are going to talk a little bit about, when we get to that, some changes we're proposing. But that would be an increase from what the Board approved this year. We started to begin to see some real interest in this program. There was $100 million in the bond, and so we want to be aggressive with this particular program.

The last column is Prop. 63. And as I mentioned to you, we are on our way in implementing that initiative. We're very excited about getting this out on the street so that we can start utilizing these funds and getting them into the creation of permanent affordable housing for chronically mentally ill. Since the counties and the Department of Mental Health have committed $115 million, we have put that down as our target.

So Mr. Chairman and Members, I'd be happy to answer any questions.

But in total, this really kicks off the discussion that we're going to go to on a program-by-program basis of a special program leveraging of almost $275 million for the next year for affordable housing in California, by the California Housing and Finance Agency.

CHAIR COURSON: Questions from the Board?

Obviously, at the next meeting, Terri, we will be seeing the full presentation of the 2007 --

MS. PARKER: At this time we would certainly want to have any direction from the Board, if you wanted us to go back and try to consider anything -- any other directions that you might want us to do research and staff work on.

MS. GALANTE: May I ask a question?

CHAIR COURSON: Yes, Ms. Galante?

MS. GALANTE: I'm sorry, maybe because I wasn't paying close enough attention. The HAT funds are funds where essentially we have a lot of discretion about how we use those to support special initiatives; correct?

MS. PARKER: Right.

MS. GALANTE: I'm just wondering, we've got a significant amount of those funds on this chart committed to downpayment assistance. And given the earlier conversation about Asset Management-challenged projects, I do wonder whether the Agency might want to think about using some of the HAT funds, not just on its own portfolio of challenged properties, but having some type of Multifamily assistance program for some of the other challenged properties out there.

So I just wonder whether it might make sense to look at the program; and then, it seemed to me that there's a fair amount of money in the downpayment assistance. And I was just wondering whether we might want to think about shifting some of that.

MS. PARKER: Laura, I hope you're listening.

MS. WHITTALL-SCHERFEE: Yes, I am.

MS. PARKER: I think probably, when we get to that, we'll have Laura speak to that for our consideration.

MS. GALANTE: Okay, thank you.

CHAIR COURSON: Any other comments from the Board?

(No audible response)

CHAIR COURSON: Terri, thank you.

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Item 10. Reports

MS. PARKER: Members, we have a quick PowerPoint to go through by all the program areas; and I will let all of our directors and chiefs walk you through them. They're here, available to answer any questions for your consideration.

Jerry, since Homeownership is next.

MR. SMART: Good afternoon, Mr. Chairman and Members of the Board.

As Terri indicated, our proposed business plan for the coming fiscal year calls for 1.5 billion for the first-time homebuyer programs, which that would support the 30-year, 35-year *interest-only*, and 40-year product, with accompanying 78.5 million downpayment assistance, both funded out of HAT and G.O. bond-funded programs.

In addition, we have been working diligently with Fannie Mae and a candidate for a master servicer to develop a mortgage-backed security platform for our *interest-only* product. That has been in process for a number of months now. We would hope that by the beginning of the fiscal year, that would be in place and available to our lender constituents.

We're also intending, as Terri indicated in her opening remarks, to partner with the Department of Veteran Affairs. Recently, Congress passed some legislation that would loosen up the eligibility requirements for veterans. And we hope to take advantage of that, partnering with the department to provide program assistance to veterans in what we would call the Year of the Veteran Homeownership program.

And lastly, but certainly not least, is our long hope for a Homeownership loan-origination system. We have been working for some period of time on that. We have completed our project planning, as its assessments. We've developed a to-be conceptual model, and we're now ready for the implementation/procurement stage. So we would hope, once we complete the MBS project, that we could then proceed with an RFP, and seek a vendor to either build us a new loan-origination system or perhaps take a custom, off-the-counter platform and modify it to fit our needs.

With all of that, I think that would be a pretty significant program for the Homeownership staff; and certainly we look forward to meeting that.

And as Terri indicated earlier, certainly if there are opportunities and available resources that we can identify, we would be glad to entertain and look at new ideas and program concepts.

MS. PARKER: I don't want to prolong this; but I do want to point out that Jerry's staff, with the help of the Mortgage Insurance staff, working together on our Homeownership program, have probably -- are going to produce this year a production level of 1.7, perhaps 1.8 possibly.

MR. SMART: Possibly.

MS. PARKER: So this will be a step down from that. But it is part of an issue of our access to bond cap, and we have been discussing that with the Treasurer's office and asking for their consideration of this on a going-forward basis.

You know, the dilemma we have had is that with the mortgage -- the average mortgage going up, that we are doing fewer loans, even though each loan is more money.

We do want to make sure that -- we're very concerned about being an appropriate niche -- you know, not being a niche, but being an appropriate partner in the marketplace. And I think I will tell you that we have been having some internal discussions about whether there is any ability on our part to think about any other sources that we could bring into this to continue to be relevant in the marketplace.

So unless there are any questions on Homeownership, I will ask Jerry's colleague, our director of Mortgage Insurance, Chuck McManus to come up and talk about his program area.

MR. McMANUS: Thank you.

We did $1 billion in calendar year 2006. So it, by far, set a record for Mortgage Insurance. This year, we're going to focus purely on the CalHFA business. We have done our programs in other locations; but given the volume of 1.5 billion, it's going to take our underwriting capacity to handle that and focus on the risk issues.

In today's market there have been some declines in market value, as I'm sure you read about daily.

Our target will be 900 million, which would be 60 percent market share of the total production for the insured. That could vary up or down, depending on our downpayment assistance. If there's downpayment assistance and you get an 80 percent loan-to-value, there is no mortgage insurance, but we have the same risk. And generally, usually, there's only about 1 and a half percent of the borrower's money in the deal, the rest is downpayment assistance stacked. So we have to underwrite those loans also.

We're going to continue the expansion of the

Homeowners Mortgage Protection Program, which is an unemployment and involuntary unemployment program where we would pay up to six months of mortgage payments at a maximum of $2,500 per month. That helps people that, through maybe no fault of their own, they're out of work, short-term problems. And we want to increase the number of and penetration of our portfolio.

Next is our risk in declining markets. I don't think I have to repeat the names of certain locations in California. But, again, you can read about them. The foreclosure rates are picking up regularly, and we have to underwrite loans and look at those appraisals carefully. And if they indicate declining values, we have to make sure that there is sufficient motivation for the borrower to continue.

Also, so that we can report accurately to the Board, are going to do a detailed review of our loss reserves because delinquencies have kicked up slightly. We're not in any problems, but they have increased from almost nothing, to over a hundred delinquent loans. And we're doing adequate reserving. And we've been studying that. We'll be fine, but it does take attention.

And, finally, we do need to do a ten-year capital-adequacy model. A mortgage's typical life is seven years, unless you're in a declining interest-rate environment. And so the risk on a mortgage -- the bad mortgages stick; the good mortgages refinance. That's basically the rule of thumb.

We need to look at a long-term, so we're here and we can provide this coverage over the long-term. So we have developed and we'll complete a computerized model.

Any questions?

CHAIR COURSON: Thank you, Chuck.

MS. PARKER: Thank you, Chuck.

If I could ask Laura and Edwin to come up, and I'll move over and they can talk about Multifamily.

MS. WHITTALL-SCHERFEE: Good morning -- or good afternoon, I'm sorry, we've been here for a while, haven't we?

The production goals that we are setting for ourselves for next year are more conservative than we agreed to for last year. But they're more in keeping with what we've actually seen. And I want to touch on them a little bit because we're looking at potentially $60 million in construction financing, $30 million in perm, and then the remaining $25 million of Bay Area Housing that we don't think we'll get approved this year, and so we're moving it over to next year.

But in particular -- and this maybe will address

Ms. Galante's comments about asset management and preservation -- a lot of the construction goal that we have for next year includes preservation of properties, both our own portfolio and other people's portfolios. And that's kind of indicative as well, because typically, in the last two to three years we have seen that construction loans for new construction are between three and four times the level of a permanent loan. And our production goals clearly don't have that kind of ratio.

So what we're really expecting next year is to focus a lot on preservation/acquisition rehab. We're working hand in hand with Asset Management. And then we'll have permanent loans that some of them will be new construction, so there is that 2:1 ratio; but some of them are going to be Asset Management, and that's closer to a 1:1 type of loan situation.

In addition, the slide that showed the Residual Gap Loan Program, the way we really intend to use it was, in effect, how it ended up being used a little bit this year, which is 5 million, really, for the program itself, as it was outlined to the Board last year, and another 5 million, really, in an "other" category, which is specifically for gap lending for projects that, for whatever reason, don't seem to quite have enough money to do what really needs to be done.

And so we fully expect that preservation programs and asset management projects could very easily dip into that source of funds as well.

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Item 12. Public Testimony

CHAIR COURSON: Terri, I'm sorry to do this, but -- Laura and Edwin, please, I apologize, we're about to lose two of our members. And we've had a gentleman here to give some public testimony who has waited patiently since nine o'clock this morning. Could we pause and let him have his opportunity before we start to lose members of the Board? I know we're going to lose some very shortly, and then come back, in fairness.

Mr. Gustavo Lamanna, as I say, has been here very patiently and has requested an opportunity to address the Board.

I apologize to the staff, but I think it's important, before people leave, to at least let him start into his presentation for us.

Mr. Lamanna, we're pleased you're here, and the floor is yours.

MR. LAMANNA: Thank you so much, Chair, and thank you so much, staff and the public and the Board.

Good afternoon. My name is Gustavo Lamanna, and I'm an attorney with Kane, Ballmer & Berkman in

Los Angeles.

Since formation in 1963, our firm has primarily represented redevelopment agencies throughout the state. We currently represent three dozen redevelopment agencies in California. I make this presentation on behalf of the firm and not any one redevelopment agency client.

We ask CalHFA to stop requiring redevelopment agencies to subordinate affordable housing covenants to CalHFA trust deeds. Such a change would harmonize the policies of CalHFA with approximately 400 redevelopment agencies throughout the state. In addition, such a policy would be consistent with Fannie Mae Announcement 06-03, which has been distributed to the Board and made available to the public today.

Fannie Mae recently changed their underwriting guidelines to no longer require subordination of affordable housing covenants, also known as "resale controls," which is what they're called in your lender guidelines, but they're basically affordable housing covenants in a lot of the industry.

The changes in this Fannie Mae announcement promote affordable housing preservation. We believe the time has come for CalHFA to incorporate the recent Fannie Mae guidelines and approve lending on affordable for-sale housing units without requiring the subordination of these affordable housing covenants.

The change in Fannie Mae guidelines presents an economically feasible method of financing affordable housing in our state. CalHFA's Affordable Housing Partnership Program may properly be modified to no longer require subordination of affordable housing covenants to CalHFA trust deeds.

Here's a brief background of the facts to support the requested policy change and program modification: More than 386 active redevelopment agencies help communities throughout California breathe new life into areas in need of revitalization, economic development, and opportunity.

(Mr. Shine left the room.)

MR. LAMANNA: These efforts are seen most vividly when the agencies devote public funds, also known as tax increment, to require housing to be developed and sold exclusively at affordable sale prices and occupied by families of very low, low, and moderate income.

(Ms. Galante left the room.)

MR. LAMANNA: Agencies protect the public funds and preserve the ongoing affordability of these housing units by imposing these resale controls and requiring covenants to be recorded against the properties.

These covenants require, among other things, that the housing unit be sold to a family of a particular income bracket -- very-low, low, or moderate -- at an affordable sales price tied to that respective income bracket.

These covenants prohibit the sale to a buyer who does not meet the affordable-income requirements or a non-owner occupant, and also forbid the subsequent sale at a price that is not affordable.

Under your Affordability Housing Partnership Program, CalHFA creates a partnership with the redevelopment agencies and provides affordable income families financing to encourage home ownership for these affordable for-sale units.

However, in the sale and financing of these affordable for-sale units, redevelopment agencies are consistently asked by CalHFA in-house counsel to subordinate the affordable housing covenants to the financing underwritten by CalHFA. This act requires redevelopment agencies to ignore their agency duties under the Community Redevelopment Law and may potentially permanently remove that housing unit from the stock of affordable housing in the state.

Historically, redevelopment agencies have not subordinated their affordability covenants to financing. In one instance, a primary example, in the heart of

Los Angeles, bondholders on a large affordable housing apartment complex adjacent to Angels Flight agreed to leave affordability covenants senior to the interest of bondholder regulatory agreements and related financing.

Here are some additional reasons to support the policy:

Because the greatest risk to CalHFA is a borrower default, in that redevelopment agencies invest public in affordable housing and remain an additional investor force in preserving the ongoing affordability of that unit, particularly after a borrower defaults.

Fannie Mae guidelines confirm the current market conditions make it economically feasible for banks to lend to affordable-income borrowers and take residential units subject to the affordability covenants.

The Fannie Mae guidelines demonstrate a strong nationwide policy for favoring affordable-housing preservation. The policy is likely to reduce CalHFA's staff time. You'd have a viable secondary market available for such loans. Institutional lenders also appear to be following Fannie Mae's lead: Wells Fargo, Countrywide, and Neighborhood Works.

And lastly, CalHFA would be helping affordable-income Californians to make the dream of home ownership a reality.

Please consider a change and an expansion in your Affordable Housing Partnership Program.

We'd also ask for the Board's support should it be necessary to appear before the Legislature to change any laws to implement this change.

I offer to assist the Board in any way possible, and welcome any questions.

CHAIR COURSON: Thank you, Mr. Lamanna.

Are there questions?

This is a new issue for me.

Is this something that the Agency has addressed before, Mr. Hughes?

MR. HUGHES: Oh, yes. There's a long history to this. The short answer is, we were happy to work with Mr. Lamanna and/or his clients as we continue to work out a policy.

The Agency has been working on this for some time. We had hoped to be done with this by now. But, unfortunately, primarily because of the staff demands on the eight strategic projects, including the two Fannie Mae projects we have going, we have simply not had the staff time to finish it.

I should say that we've faced, historically, a number of challenges in reaching the result that's been requested here, not the least of which is our tax-law concerns. And our bond counsel -- we've essentially had to filter any of these programmatic issues through the tax-law filter to make sure bond counsel believes that the loan as structured will comply with federal tax rules.

We also have CalHFA policies on top of that, because at the end of the day, we are a hard-money lender and we need to be repaid. We have an obligation to investors, bond investors. We need to make sure that the loans are prudently structured so that we have a chance to get repaid at the end of the day.

In the deals that we've been negotiating with Fannie Mae, we have spent endless staff hours in negotiating variances from Fannie procedures because they simply don't mesh with the way we do business and are sometimes things that we have to do and sometimes things that we do by policy.

So the Fannie Mae guidelines do not always well-mesh with the CalHFA statutes or actually, more importantly, the business operations, which are essentially controlled, again, by federal tax law.

So we have this ongoing project to see if we can address some of these in a way that's more satisfactory; but I think it will, unfortunately, take a little bit longer to finish that.

And we're happy to deal with you or your clients directly, sir, to get as much input as you can give, and we'll consider it.

CHAIR COURSON: Other questions?

Comments from the Board?

(No audible response)

CHAIR COURSON: I would urge, Mr. Hughes and Mr. Lamanna, that our staff does engage directly with you, give you a chance to dialogue with them, and we move this forward.

And, frankly, if not at our next meeting, certainly the one after that, get a report as to where we're moving -- we're moving along. Whether we can come to a satisfactory conclusion, at least we need to come to a conclusion.

MR. LAMANNA: We accept that invitation.

MR. CAREY: Mr. Chairman, I will just say that it is an issue that for affordable housing providers has been on the table for a long time and we all get caught in the middle of it, so that would be great to move forward.

CHAIR COURSON: Please, if you would, work with Mr. Hughes. And then let's, at our meetings, get an update as to where we're at so we can make a determination whether we can accommodate such a request or not. I know it is an issue that we need to deal with.

Thank you.

MR. LAMANNA: Thank you. And thank you for taking me out of order.

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Item 10. Reports *(continued)*

CHAIR COURSON: Is Edwin still here, or did he just leave the building?

No, he's here? Okay, sorry.

Those new kids will be teenagers by the time we finish your presentation.

MR. GIPSON: I'll try to be brief for the balance of the slide.

In conjunction with what Laura said about the production goals, over the last year, we've been having a competitiveness group come together to talk about Multifamily issues, which include Legal, Finance, both Laura, myself, Margaret from Asset Management, and the comptroller, and Legal, of course, to talk about the different issues that are posed in front of us. And those things include our interest rates, our loan fees, our internal processing, how we convert loans. We've discussed things such as, we have the seismic policy, particularly on rehab, we have the seismic waiver on new construction, and the standards. And so almost everything got some slight tweak to it, quite honestly.

Seismic review, we kind of fell more in line with industry standard. We were a little above.

Some fees, or certain things that we were requiring were duplicative, you know, kind of too much belt and suspenders a lot of times. So those have changed.

A lot of those are out there now. As they came on line, we took them off and stopped requiring them of the borrowers, accepting guarantees and things of that nature, which simplified a lot of letter of credit requests that became very problematic for our borrowers.

In addition, the one we all know is the architectural process and architectural review manual, we have gone through that. The draft is out for internal review. We've met with many stakeholders -- architects, contractors, engineers -- for their input. We've met with Asset Management, of course. And currently, the document is inside the Agency having its internal turn for people to comment on.

And for the most part, it is a cut-down manual. Most people look at it and say, "Well, the old one was 70, and you're down to 50 pages." The difference between that 70 and 50 is not just 20 pages; it's that the first part of the manual is now a checklist. Talk about contractors and some of the others, what is it you want? Boom, boom, boom, boom, boom. The back part of the manual is the explanation.

So basically it is down by quite a bit. And we started to eliminate things that were already covered by local building code and some of the others. We had issues with -- we had to have kitchens certain ways. Those types of things are out of the manual.

So quite a few people are pleased. I'm sure there will still be some out there that are upset. But we still tried to maintain things on durability, just for the sheer fact of we want that building still to be there and we want to keep it livable, so you want to keep some quality involved.

I will throw in one item that is not on here, our Prolink database. We expect that to go -- we have the beta version sometime in April or May here this year. It is the new database where we'll be keeping track of all the Multifamily loans and basically the underwriting through the loan documentation. And we expect that project to actually go fully live at the end of August of this year. So beta here in April; live, August.

The last item on the checklist is something Terri mentioned earlier, which is the Mental Health Services Act. It's called the "Homelessness Initiative" here and we call it the "Housing Fund" elsewhere. But basically it's the $75 million from the Prop. 63 funds with an additional $40 million per year. $75 million for capital, $40 million for operating subsidy. We will be administering that program on behalf of the Department of Mental Health.

We expect to see quite a few projects as they come online. It should be a very busy project, which we will have to staff up for.

With that, I'll stop.

CHAIR COURSON: Questions?

(No audible response)

CHAIR COURSON: Laura, Edwin, thank you.

MS. PARKER: Doug, you're on deck.

MR. SMOOT: Thank you.

Well, for about nine years now we've operated a program called the HELP program, which was probably the first program that initiated our Special Lending. We have done about 175 million to 105 individual localities at this point in time.

This current year's budget was funded at 15 million for the program. We propose to continue that budget level.

A second program in Special Lending Programs is the Habitat for Humanity loan purchase program. We made

3 million in allocations, loan purchases, individual first-loan purchases from Habitats throughout the state last year.

This year, we're probably on goal for that. We received about 5 million in applications, and we'll probably be doing in the nature of 3.1 million. That's still to be decided.

We propose, we think that is a sustainable amount over time, is the 5-million mark. We think that's really growing Habitats. We're providing an equity base, leveraging an equity base for them, to then turn around and turn that into additional production, which in turn we start the machinery to be able to buy those loans, those new loans.

With respect to the Residential Development Loan Program, we call it "RDLP," just a little bit of history. That was begun with approximately $75 million of Prop. 46 Funds. With the advent of passing of Prop. 1C, we have an additional $100 million. That really speaks to expanding the program. We had somewhat constrained our ideas with the fact that we only had 75 million; and California is such a large and demanding state, as far as affordable housing. But with the passing of Prop. 1C, that gives us substantial funding. We think that we're going to substantially be able to put out on the street

$40 million annually. We'd probably do that with two 20-million funding rounds.

And remember, this is a loan to local governments, similar to the HELP program, for their affordable-housing activities, and strictly for infill new construction ownership development.

In line with expanding the program, we really think that increasing the long term from four to five years is probably appropriate at this point in time. It gives a little bit more of an advance sponsorship with localities to be able to induce a project through.

We also think that increasing the maximum loan to the localities from four to five million is probably appropriate.

And on the last point, we initially targeted the program for acquisition, predevelopment, anticipating that if we did anything other than that, we would expect demand far in excess that we would have been able to meet.

But we are now considering or proposing that we increase that loan, expand that loan to cover the purpose of construction expenses also, but that we will limit the amount of the total to $2 million strictly for construction out of the total 5 million.

And with that, I'll...

MS. PARKER: Mr. Chairman and Members, just two points, quickly.

The changes that Doug is proposing have come out of, again, stakeholder meetings and discussions. So I think we're very excited about making these changes.

The other comment I would like to make is the Habitat for Humanity program is somewhat different than our HELP program, our Residential Development Loan Program, in that those funds are paid back and provide the ability to recycle them.

As Doug said, we're in our ninth year of HELP. We're expecting some of those first loans now with the ten years, to be paid back. And essentially in that sense, recycle as opposed to be requiring new monies out of our Housing Trust funds.

That's not the case for Habitat, nor will ever it be the case for Habitat. Those loans will pay off although some amount, will pay off incrementally over a very, very long period of time.

And when we started this program, this year will be our third year, I guess the question for me that I want to bring to your attention is how much -- how long do you want to commit that level of funding? Because it is a new $5 million every year. And whether or not in the future, given the scarce amount of Housing Assistance

Trust funds, those funds might also be wanted to be targeted, perhaps as Ms. Galante suggested or whatever.

So we're proposing 5 million for next year. We've sort of said to the Habitats, to sort of gear up. But our suggestion is for them to be made aware that, in the future, the amount really may be a year-to-year consideration, and not necessarily something where there is an automatic commitment on the Board's part of 5 million per year for a five-year period.

I'm proposing that to you for your reaction, but I did think it was important to bring this up because it is $5 million every year.

CHAIR COURSON: Is it possible to -- I agree with the issue, and I think you have to take a look at, does the Board finally make a decision that we're going to establish some cap at some point, or will go up to some figure?

I guess my question is, is there a way to lever that program and sell participations to other lenders, participation interest in our loans? In other words, if we have at this point $10 million on our books or $20 million on our books, and we put $5 million on this year, can we go to another lender who has -- this may be clearly some CRA opportunities for banks or financial institutions who would buy, say, 50 percent participations in our loans and be a participant with us, and we service the loan or remit to them, just a way to lever our money and put more money out without hitting the wall.

MR. SMOOT: The answer is possibly. We have taken some baby steps to actually look into that picture. We thought about the opportunity to perhaps offer CRA credit, in essence, to other banks by selling a participation in it. But we haven't at this point because it's such an infant program with us, we probably don't have enough loans to really make that kind of an offering right now. But that is something that we'd want to explore for the future.

MS. PARKER: Doug, thank you.

Margaret, if you'd step up and talk a little bit about the Asset Management.

Steve, if you want to step up, you can be on deck.

MS. ALVAREZ: Okay, I only have three bullets up there, but let me assure you, it takes all our time every day and every week to handle those three things.

Our challenge right now with portfolio preservation is really melding the owners' goals and objectives, as you heard from people from Boles Creek and others, with our own. We have restrictions by HUD. We have bond and law tax implications. And it's really not as easy as it sounds to preserve these buildings and to get all the people involved in those properties and in those projects to make it happen.

Eureka Family that we talked about this morning was about two and a half years in the making for one project. We're hoping that that's kind of a "kicking the door open"; and the others, obviously, will be a lot easier, once you have some models under your belt. But that's -- it's very labor-intensive to make these workouts with people.

I'm very happy that the Agency supported our programs and our ideas for preservation. And by supporting us with $10 million from the HAT fund, that's up from $4 million last year -- or this current year. And I think we can use it all combined with the Earned Surplus money that the Section 8 properties generate.

Our main focus is our Section 8 portfolio. We have identified 31 properties that we have decided need some help, whether they think they do or not. And that is really going to be our main focus.

The small buildings are particularly problematic. We have about 20 properties that are five units -- or under 10 units. And those just -- tax credits don't make much sense. Not a whole lot makes sense. And they're a particular challenge.

Our plan is, wherever possible, to promote sales, much like the Eureka Family this morning. Just because everybody seems to win so much better, with the more money, with the tax-credit investor, and more money for rehab and so forth.

Along that line, since we've been so focused on our Section 8, the 80-20 owners have come in the door, the original old loans from 1986, when tax credits first started. And now they're kind of knocking at the door, wanting to do refinances and restructures also. So we are looking into that, which is another priority.

The third big priority is something we'll be working with HCD on in the coming months, and that's a program called RHCP, Rental Housing Construction Program loans. Those were done way back when and were either feasibility loans or operating annuities, coming due now.

And really, way back when that legislation was passed, there wasn't really an exit strategy, and so now we're trying to create one.

So tied with all these problematic issues is our second bullet up there. It's really considering our prepayment restrictions that the Agency has had for all these years, and how does the current situation with properties and owners and aging owners and aging properties and interest rate market, how does that all work together and how does that impact our prepayment policy, and what should our policy be, and what can it be, given the restrictions that I mentioned?

And then lastly, our third bullet as part of this MHSA initiative, the Homelessness Initiative, our Agency has never really done a subsidy program before where we've overseen that, so we have a work group in Asset Management that's working on that, talking with people and figuring out what they've done right and wrong. And we look forward to moving that forward and helping the State in that matter. And our overall plan is to keep it simple and easy to manage for all parties involved.

MS. PARKER: Questions for Margaret?

CHAIR COURSON: Questions?

(No audible response)

CHAIR COURSON: Margaret, thank you.

MS. ALVAREZ: Thank you.

CHAIR COURSON: We appreciate it.

MR. SPEARS: Well, Members, I know it's a long day and you're hungry and tired, and dealt with a lot of exciting issues.

But we've wanted to remind you of several other things we're going to be working on this year. We have a number of initiatives that are going on. And the impact is, this will take a significant amount of time to work on these initiatives while we're working on production goals and that sort of thing. So that's why we want to remind you that these are out there.

First of all, I think we've talked about this before, but the leases in Sacramento, at the Senator Hotel, at the Meridian, are complete, or they terminate in October of '09. So we're looking to consolidate. We have folks walking back and forth in the heat, and inefficiencies, and we need to all be in one building.

Other strategic initiatives:

Fiscal services automation.

You've already heard about the Homeownership automation project.

Business continuity management and document management are all major issues that we're all going to be dealing with this year.

Fiscal services is a new accounting and managerial information system.

Essentially, all of these initiatives will give tools to the folks that are here to work more efficiently, to make their work easier, to keep up with industry standards.

The Homeownership loan automation and the Multifamily loan automation are keeping up with trends in the industry, to go to paperless. We're killing too many trees. We'd like to kill fewer trees.

Business continuity: We have an operational recovery plan for the IT area. And what we need to do is have better plans if something happens to the Agency, to one of the buildings, that we could bring everybody up, have a place to work, have vendors who would provide computer terminals to us and supplies and be able to rent this room and set up loan compliance and automation right here in this room and be ready to go within a few hours.

And then document management, we have duplication of documents. We need to decide whether we're spending too much time handing documents back and forth, are we retaining documents too long. This will make us a lot more efficient.

So to manage all these, we've put in place a governance structure that I know we've talked about before. We have steering committees and project teams for every one of these. The governance committee does the best job we can to manage the workload that is required. And we have done some moving around this year to deal with a couple of opportunities. For example, the Homeownership automation project was moved down so that we could take advantage of the opportunity to sell loans to Fannie Mae.

So that's what we're trying to do with the governance structure. But we will be doing this on top of all of the production that we have planned for this year.

MS. PARKER: Mr. Chairman and Members, that concludes our presentation on our proposal for a business plan concept.

I would essentially say that we do think that there is a lot of exciting things in here. You know, there's a tremendous amount of work for us. We really feel strongly about getting the strategic work done from the standpoint of really -- really, the ability to move -- aggressively moving forward. It will continue to be a challenge for us to make the Homeownership goals.

But I will tell you that the work that we have done with Fannie Mae in the past, in selling them loans or seconds. I was invited to a board dinner of their board about two weeks ago, and it was publicly recognized that that sale helped Fannie Mae make its HUD goals for 2006. Had that not occurred, I don't know what would have happened for them.

We are excited about doing the broader MBS program, particularly in our discussions going forward with rating agencies, where that will essentially help us on our liquidity and our rating basis, and that essentially will weave back into our flexibility of our housing trust funds in the future.

Obviously, the Homeless Initiative is going to be a huge undertaking for us to accomplish.

But I commit, along with all of our staff, whether it be in Legal or Mortgage Insurance, Asset Management, Legislation, IT -- I'm always missing somebody -- Fiscal Systems, Financial Services, all of those folks, that they're very committed to do the best we can to make this an outstanding year going forward.

CHAIR COURSON: Thank you. We'll look forward to our next meeting and getting into the discussion and approval of the '07-08 plan.

As just a reminder and on the record, I'll remind that on our next Board meeting agenda, we will put the consideration of the Watson Wyatt policies and procedures and the discussion of PERS pensions on our next agenda. That might move the timing back in trying to get policies and procedures out by July, but it's not that time-sensitive. We've got plenty of time until the end of the year.

Having said that, you have in your book reports that Bruce has prepared and also a handout on our financing. I'll let you peruse those at your leisure, and call Bruce with questions.

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Item 12. Public Testimony *(continued)*

CHAIR COURSON: We have had public testimony. Is there any other public testimony?

(No audible response)

CHAIR COURSON: Seeing none, there is no other business to come before the Board.

I thank you all for your attention and input and determination today to get through this agenda.

MS. GALANTE: Nice chairmanship.

CHAIR COURSON: We stand adjourned.

(Proceedings concluded at 2:00 p.m.)

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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 11th of March 2007.

DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Parkview Apartments
Sacramento, Sacramento County, CA
CalHFA # 06-079-A/N

SUMMARY

This is a Final Commitment request. Security for the acquisition/rehabilitation and permanent loans will be a 97-unit family apartment complex known as Parkview Apartments, located at 7252 Munson Way, Sacramento, California. Parkview Affordable, L.P., ("Borrower") whose managing general partners are Parkview AGP, L.P. and Las Palmas Foundation, a California nonprofit corporation, will own the project.

Parkview Apartments is an existing portfolio loan currently owned by Parkview Associates, Ltd, a limited partnership, whose general partner is a real estate investment trust known as Apartment Investment & Management Company (AIMCO). The project was constructed in 1979 and is a 97-unit, two-story 17 building, family apartment complex. The project is 100% Section 8 and the initial 5-year HAP contract plus seven (7) additional 5-year renewals expires on September 30, 2020. 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.

LOAN TERMS

Acquisition/Rehabilitation

First Mortgage	$4,295,000
Interest Rate	6.10%, variable
Term	24 Months, interest only
Financing	Tax-Exempt
Second Mortgage*	$1,885,000
Interest Rate	5.20%
Term	14 year fixed, fully amortized
Financing	Tax-Exempt

*At the time of permanent loan funding, this loan will remain in place and will be subordinate to the CalHFA's Permanent First Mortgage.

Permanent

First Mortgage	$4,520,000
Interest Rate	5.30%
Term	30 year fixed, fully amortized
Financing	Tax-Exempt

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

OTHER FINANCING

There is no other financing involved in this transaction.

HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

The original HAP contract was executed on August 28, 1980, for a term of 5 years. The HAP contract expired on September 30, 1985, and by its terms, was extended for the first of seven (7) additional 5-year terms (35 years total). The contract is in the fifth 5-year renewal period. 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").

CalHFA is currently seeking approval from the Sacramento HUD office recommending that the existing 14-year HAP contract remain in place with HUD. A response from HUD is still pending.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract or other HUD subsidies.

This project is a pre-1980 HAP contract with limited distribution to the project sponsor. The existing residual receipts reserve along with the existing replacement and operating reserves will be transferred with the property at the time of sale to Parkview Affordable, L.P., upon ownership.

PROJECT DESCRIPTION

Project Location

- The project is located in the south area of Sacramento, approximately eight miles from downtown, and fifteen miles from Sacramento International Airport.
- The project is 0.8 miles west of Highway 99, and 3.4 miles east of Highway 5, both of which are major north/south routes through the region, and within 5 miles south of Business/Interstate 80 and Highway 50, both routes are west/east through the region.
- Sacramento is surrounded by the cities of Elk Grove to the south, Woodland to the north, Roseville to the east, and West Sacramento (Yolo County) to the west.
- The project has retail uses to the north, east, and west with various single family homes to the south. These include a retail center, anchored by a Food Max grocery and Rite-Aid store, to the east, a KIA automobile dealership to the north and a small retail strip center to the west.
- Proximity to off-site amenities include a bus stop is within 0.1 miles of the project, an Albertsons within 0.2 miles, a Wal-Mart within 0.4 miles, an elementary school and high school within 0.2 miles, and Kaiser Permanente Hospital (full service acute care facility/hospital) within 2.5 miles.

Site

- The site is a slightly oblong shape parcel and is 6.1 acres in size.
- The site is zoned Multi-Family Review (R3R), which allows for development of no more than 29 units per acre. The site and its use are legally conforming.
- The subject and surrounding land uses are consistent with the zoning of the area.

Improvements

- This 97-unit project was built in 1979 and consists of 16 free standing two-story buildings, surrounded by mature landscaping and large deciduous trees, a children's play area, with a single story manager's office/community center. The basic structure is wood frame with T-111 exterior siding, on concrete slabs on grade, and pitched composition shingle roofs. All units are accessible from the Munson Way frontage and parking lot entrances. There are no fences or gates along the Munson Way but the property is surrounded by three fences. Exterior walkways lead to each of the units.
- There are 28 three bedrooms, 53 two bedrooms, and 16 one bedrooms. All but 16 of the units are of townhome design. The remaining 16 units, all one bedroom, are flat style units. Five (5) of the 97 units are accessible units. Each unit has a slide-in electric range with oven, frost-free refrigerator, garbage disposal, single and double bowl sinks, and a patio or balcony. All the three bedrooms have laundry hook-ups. Each unit also contains central air and heating.
- The common area amenities include a laundry room, a central office building that houses a manager's office, and mail facilities. The central office building contains a community room with kitchen and toilet facilities.
- The project offers 135 uncovered, open parking spaces.

PHYSICAL NEEDS ASSESSMENT/SCOPE OF WORK

- The project is in average overall condition for a development of this type when compared to other developments of similar type and age in the southern portion of the City of Sacramento and surrounding areas.
- The scope of rehabilitation work totals $2,436,335 or $25,116 per unit and includes:
- **Site work, $183,485** – walkways/asphalt repair, seal coat, and concrete repairs ($50,290), landscaping and playground upgrades ($53,000), leasing office and signage ($45,000), and site lighting and drainage ($35,195).
- **Building, $1,266,431** – roofing for all buildings ($226,200), windows ($243,470), replace all exterior siding ($753,200), wood stair railings and miscellaneous doors, (43,561).
- **Residential Units, $609,869** – new cabinets ($200,008), kitchen/bathroom sinks and faucets ($81,604), appliances ($40,685), interior painting ($46,000), doors ($75,879), flooring ($55,762), and miscellaneous fixtures and accessories ($109,931).
- **Mechanical systems, $376,550** – replace and install HVAC ($262,130), plumbing ($88,170), and electrical work ($26,250).

Work is scheduled to commence in mid summer 2007 and is projected to be completed within 12 months.

Off-site improvements

- No off-site improvements and/or costs are required.

Relocation

- There is approximately $73,800 in relocation expense allocated for this project. Most of the renovation will take place around the occupied units. The rehabilitation plan does not assume invasive construction activity. However, specific interior unit renovation such as window replacement, vinyl flooring, and cabinet replacement is going to take place on a cluster basis (groups of units) and is scheduled to be completed within 3 days and two nights. The residents will be offered a hotel voucher or cash equivalent for the period of their displacement. The Borrower will provide transportation and moving arrangements. In addition, these temporary displaced residents shall be entitled to compensation for all reasonable out of pocket expenses incurred in connection with temporary relocation.

  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 and 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 southern portion of the city of Sacramento.

The PMA population in 2005 was 107,724 persons, with an annual growth rate of 1.84% since 2000. The projected population for January 2008 is 113,513. The PMA is expected to grow steadily by 2.15% to 119,301 by 2010. In the PMA 41% of the population is the 5 to 29 year age range, which is a positive indicator of many young families that would benefit from affordable housing. The average number of persons per household is 3.31.

Of the 32,393 households within the PMA population, 52.6% are owners and 47.4% are renters. The median household income for the PMA of $34,261 in 2005 is 36% below the greater Sacramento MSA median income of $53,841. In addition, over half (51%) of the PMA population earned below $35,000 in 2005 as compared to 31% of the population in the greater Sacramento MSA. Census data indicates 34.6% of renter households in the City of Sacramento are paying 35% or more of their income toward rent.

<u>Housing Supply and Demand</u>

Housing Supply and Demand

- The rental housing stock in the PMA is primarily comprised of market rate apartments (1970-1997) in average to good condition.
- Occupancy rate for market rate units as of June 2006 is 95.6%. 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 1,616 rental units targeting general households in the PMA with incomes between 50% and 60% of AMI. Specifically, there will be a demand for 493 one bedroom, 610 two bedroom and 513 three bedroom units.
- The public housing waiting list, maintained by the Sacramento Housing and Redevelopment Agency was closed in November 2004 and contains 6,220 households.
- There are no new LIHTC/bond projects or market rate housing currently planned within the PMA.

PROJECT FEASIBILITY

Estimated Lease-up Period

- The project is currently 100% leased and the proposed rehabilitation will not interfere with occupancy.

ENVIRONMENTAL

Barr & Clark Environmental completed a Phase I Environmental Assessment report on April 10, 2007. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

SEISMIC

URS Corporation performed a seismic review assessment on March 30, 2007. The damage ratio met the Agency's seismic risk criteria and no further review is needed.

DEVELOPMENT TEAM

Borrower

Parkview Affordable, L.P.

- The non-profit Managing General Partner will be Las Palmas Foundation, located in Carlsbad, California. Las Palmas was found in 1992, and Joseph M. Michaels is the President and Executive Director. Mr. Michaels' has over 22 years of experience in affordable multifamily development.
- The co-general partner and sponsor/developer, Parkview AGP, L.P., a subsidiary of Parkview GP, LLC (Bentall Residential), will be an initial general partner in the LP. Bentall was founded in 2002 in Irvine, California to acquire and manage affordable and market rate multifamily housing in the United States. Ken J. Reiner is the President and has over 25 years of real estate development experience. Bentall has over 20 years of experience developing affordable quality rental housing. In the past 5 years, Bentall has developed 10 senior/family facilities representing over 2,678 units, in San Jose, Oakland, and various cities throughout Southern California.

Bentall has developed nine projects with CalHFA including Baywood (77-unit, senior facility), El Rancho Verde (700-unit, senior facility), Coronado Terrace (312-unit family facility), Summercrest (372-unit, family and senior facility), Vista Terrace Hills (262-unit, family facility,) Hemet Estates (80-unit family facility) and Sterling Village (80-unit family facility). On January 12, 2006, and March 9, 2006, CalHFA approved final loan commitments for two additional projects with Bentall; Palm Springs Senior Villa (116-unit senior) and Indio Gardens (151-unit family), respectively.

Management Agent

The John Stewart Company

- The John Stewart Company will manage the property. The John Stewart Company was founded in 1978 and provides management, development and consulting services for non-profit and private sector clients throughout California. The John Stewart Company services approximately 200 housing developments representing 20,000 residential units for low-income to extremely low-income persons. The John Stewart Company manages various types of properties including senior communities, tax credit projects, HUD, and Section 8 properties.

Architect

Gelfand Partners Architects (Gelfand)

- Gelfand, located in San Francisco (with affiliates in San Diego and New York), has provided planning and design services since 1997. The Borrower has engaged Gelfand to assist them in project design, renovation, and construction management during the rehabilitation process. Gelfand has designed over 30 multifamily projects in the Northern California, Bay Area.

Contractor

Precision General Commercial Contractors (Precision GCC)

- Precision GCC has been a general contractor since 1987. Their work includes primarily multi-family, government assisted (Low Income Housing and Tax Credit assisted) and commercial properties. They specialize in all aspects of construction and development in over 16 states, primarily California, Arizona, Texas, Oklahoma and Washington, representing over 30,000 units.

PROJECT SUMMARY

PROJECT NUMBER: 06-079-A/N

Final Commitment

Project:	**Parkview Apartments**			
Location:	7252 Munson Way	***Developer:***	**Bentall Residential**	
City:	Sacramento	***Partner:***	Las Palmas	
County:	Sacramento	***Investor:***	AIMCO	
Zip Code:	95823			
		No. of Buildings:	17	
Project Type:	Rehabilitation	*No. of Stories:*	2	
Occupancy:	Family	*Residential Space*	86,540	sq. ft.
Total Units:	97	*Community/Leasing Spac*	1,500	sq. ft.
Style Units:	Townhomes & Flats	*Commercial Space*	0	sq. ft.
Elevators:	None	*Gross Area*	88,040	sq. ft.
Total Parking	135	*Land Area*	262,667	sq. ft.
Covered	0	*Units per acre*	16	

CalHFA Acquisition/Rehab Financing	Amount	Rate	Term (Mths)
CalHFA Acquisition Financing	$4,295,000	6.100%	24
Existing Operating Reserve	$70,784		
Existing Replacement Reserve	$149,404		
Earned Surplus	$0		

Permanent Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage*	**$4,520,000**	**5.30%**	**30**
CalHFA Bridge Loan	**$0**	**0.00%**	**0**
CalHFA Second Mortgage* **(funded at acquisition)**	**$1,885,000**	**5.20%**	**14**
Source 4	$0	0.00%	0
Source 5	$0	0.00%	0
Source 6	$0	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 - Mezz.Loan	$0		
Deferred Dev. Fee	$0		
Tax Credit Equity **($2,425,718 funded at acquisition)**	$269,524		

0

Construction Valuation		Appraisal		Value Upon Completion	
Investment Value	$11,285,242	**Appraisal Date:**	**3/20/07**	**Restricted Value**	$8,590,000
Loan / Cost	67%	**Cap Rate:**	**6.25%**	**Perm. Loan / Cost**	66%
Loan / Value	55%			**Perm. Loan / Value**	75%

CalHFA Fees and Reserve Requirements

CalHFA Loan Fees	**Amount**	**Required Reserves**	**Amount**
CalHFA Acquisition Loan Fee	$42,950	Other Reserve	$0
CalHFA Permanent Loan Fees	$32,025	Replacement Resv. Initial Deposit	$97,000
Other Fee	$0	Repl. Reserve - Per Unit/ Per Yr	$500
Construction Loan - Guarantees/Fees		CalHFA Operating Expense Reserve	$97,587
Completion Guarantee Fee	$0	Rent Up Reserve	$0
Contractors Payment/Perf. Bond	$2,777,422	Transitional Operating Reserve	$115,000
	$0	Other Reserve	$0

Date: 4/24/2007 **Senior Staff Date:** 4/17/2007

UNIT MIX AND RENT SUMMARY — Parkview Apartments

06-079-A/N

Total Unit Mix

# of Units	Unit Type	# of Baths	Average Sq. Ft.
12	1 Bedroom Flat	1	540
4	1 Bedroom Flat	1	670
1	2 Bedroom Flat	1	880
48	2 Bedroom Townhome	1.5	865
4	2 Bedroom Townhome	1.5	1,050
28	3 Bedroom Townhome	1.5	1,085
97			

Number of Regulated Units By Agency

Agency	35%	45%	50%	60%	80%
CalHFA			20		
Tax Credits				97	
Locality					
HCD					
AHP					
Zoning					
Other					

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			$590		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	5	$524		$66	89%
60%	11	$530		$60	90%
80%	0	$0		$0	0%
Two Bedroom			$850		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	16	$623		$227	73%
60%	36	$715		$135	84%
80%	0	$0		$0	0%
Three Bedroom			$920		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	8	$681		$239	74%
60%	20	$820		$100	89%
80%	0	$0		$0	0%
Four Bedroom			$0		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	0	$0		$0	0%
60%	0	$0		$0	0%
80%	0	$0		$0	0%

Sources and Uses of Funds — Parkview Apartments

06-079-A/N
Final Commitment

SOURCES OF FUNDS:	Funds in during Acq/Rehab ($)	Funds in at Permanent ($)	Total Sources of Funds ($)	Sources per Unit	%
CalHFA Acquisition Financing	4,295,000				
Construction Only Source 2	-				
Construction Only Source 3	-				
CalHFA First Mortgage*		4,520,000	4,520,000	46,598	47%
CalHFA Second Mortgage*	1,885,000	-	1,885,000	19,433	19%
Existing Replacement Reserve	149,404	-	149,404	1,540	2%
Earned Surplus	-	-	-	-	0%
Existing Operating Reserve	70,784	-	70,784	730	1%
Source 5	-	-	-	-	0%
Source 6	-	-	-	-	0%
Source 7	-	-	-	-	0%
Source 8	-	-	-	-	0%
Source 9	-	-	-	-	0%
Source 10	-	-	-	-	0%
Source 11	-	-	-	-	0%
Source 12	-	-	-	-	0%
Income from Operations	-	-	-	-	0%
Developer Contribution - Mezz.Loan	-	-	-	-	0%
Deferred Developer Fee	391,417	-	391,417	4,035	4%
Tax Credit Equity	2,425,718	269,524	2,695,242	27,786	28%
Total Sources	9,217,323	4,789,524	9,711,847	100,122	100%
(Gap)/Surplus	0	-	0		

Total Development Sources (right-hand columns)

USES OF FUNDS:	Acq/Rehab ($)	Permanent ($)	Total Uses of Funds ($)	Cost per Unit	%
LOAN PAYOFFS & ROLLOVERS					
Construction Loan payoffs		**$4,295,000**			
ACQUISITION					
Lesser of Land Cost or Value	-	-	-	-	0%
Seller's Prepayment Penalty	405,210	-	405,210	4,177	4%
Legal - Acquisition Related Fees	7,500	-	7,500	77	0%
Subtotal - Land Cost / Value	412,710	-	412,710		
Existing Improvements Value	4,187,290	-	4,187,290	43,168	43%
Off-Site Improvements	-	-	-	-	0%
Other	-	-	-	-	0%
Total Acquisition	**4,600,000**	**-**	**4,600,000**	**47,423**	**47%**
REHABILITATION					
Site Work	-	-	-	-	0%
Rehab to Structures	2,436,335	-	2,436,335	25,117	25%
General Requirements	146,180	-	146,180	1,507	2%
Contractors Overhead	48,727	-	48,727	502	1%
Contractors Profit	146,180	-	146,180	1,507	2%
Contractor's Bond	25,000	-	25,000	258	0%
General Liability Insurance	30,454	-	30,454	314	0%
Environmental Mitigation Expense	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Rehabilitation	**2,832,876**	**-**	**2,832,876**	**29,205**	**29%**
RELOCATION EXPENSES					
Relocation Expense	73,800	-	73,800	761	1%
Relocation Compliance Monitoring	-	-	-	-	0%
Total Relocation	**73,800**	**-**	**73,800**	**761**	**1%**

Total Development Costs (right-hand columns)

(Continued on Next 2 Pages)

USES OF FUNDS (Cont'd):	Acq/Rehab ($)	Permanent ($)	Total Development Costs		
			Total Uses of Funds ($)	Cost per Unit per Unit	%
NEW CONSTRUCTION					
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%**
ARCHITECTURAL & ENGINEERING					
Architectural Design	25,000	-	25,000	258	0%
Architect's Supv during Construction	11,000	-	11,000	113	0%
Total Architectural	**36,000**	**-**	**36,000**	**371**	**0%**
Engineering Expense	15,000	-	15,000	155	0%
Engineers Supv. during Construction	-	-	-	-	0%
ALTA Survey	-	-	-	-	0%
Total Engineering & Survey	**15,000**	**-**	**15,000**	**155**	**0%**
ACQUISITION LOAN COSTS					
Acquisition Loan Interest	-		-	-	0%
CalHFA Acquisition Loan Fee	42,950		42,950	443	0%
Other Acquisition Loan Fees	-		-	-	0%
CalHFA Outside Legal Counsel Fees	-		-	-	0%
Other Lender Req'd Legal Fees	-		-	-	0%
Title and Recording fees	20,000		20,000	206	0%
CalHFA Req'd Inspection Fees	18,000		18,000	186	0%
Other Req'd Inspection Fees	-		-	-	0%
Prevailing Wage Monitoring Expense	-		-	-	0%
Taxes & Insurance during rehab	44,422		44,422	458	0%
Predevelopment Interest	-		-	-	0%
Cost for Completion Guarantee	-		-	-	0%
Other	-		-	-	0%
Total Acquisition Loan Expense	**125,372**	**-**	**125,372**	**1,292**	**1%**
PERMANENT LOAN COSTS					
CalHFA Perm Loan Fees	32,025	-	32,025	330	0%
CalHFA Bridge Loan Fees	-	-	-	-	0%
CalHFA Loan Application Fee	500	-	500	5	0%
Other Lender Perm. Loan Fees	-	-	-	-	0%
Title and Recording	-	10,000	10,000	103	0%
Perm. Bridge Loan Interest Expense	-	-	-	-	0%
Bond Origination Guarantee Fee	-	-	-	-	0%
Tax Exempt Bond Allocation Fee	600	-	600	6	0%
Other	-	-	-	-	0%
Total Permanent Loan Expense	**33,125**	**10,000**	**43,125**	**445**	**0%**
LEGAL FEES					
Borrower Legal Fee	75,000	-	75,000	773	1%
Other	-	-	-	-	0%
Total Attorney Expense	**75,000**	**-**	**75,000**	**773**	**1%**

USES OF FUNDS (Cont'd):	Acq/Rehab ($)	Permanent ($)	Total Development Costs Permanent of Funds ($)	Per Unit per Unit	%
CONTRACT / REPORT COSTS					
Appraisal	8,000	-	8,000	82	0%
Market Study	10,000	-	10,000	103	0%
Physical Needs Assessment	6,000	-	6,000	62	0%
HUD Risk Share Environ. Review	-	-	-	-	0%
CalHFA EQ Seismic Review Fee	3,000	-	3,000	31	0%
Environmental Phase I / II Reports	10,000	-	10,000	103	0%
Soils / Geotech Reports	-	-	-	-	0%
Asbestos / Lead-based Paint Report	-	-	-	-	0%
Noise/Acoustical/Traffic Study Report	-	-	-	-	0%
Termite/dry rot	-	-	-	-	0%
Other	-	-	-	-	0%
Total Contract Costs	**37,000**	**-**	**37,000**	**381**	**0%**
CONTINGENCY					
Hard Cost Contingency	283,287	-	283,287	2,920	3%
Soft Cost Contingency	20,000	-	20,000	206	0%
Total Contingency	**303,287**	**-**	**303,287**	**3,127**	**3%**
RESERVES					
CalHFA Operating Expense Reserve	97,587	-	97,587	1,006	1%
Construction Defects Reserve	-	-	-	-	0%
Funded Replacement Reserve	97,000	-	97,000	1,000	1%
Capitalized Investor Req'd Reserve	-	-	-	-	0%
Transitional Operating Reserve	115,000	-	115,000	1,186	1%
Total Reserves	**309,587**	**-**	**309,587**	**3,192**	**3%**
OTHER					
CTCAC App/Alloc/Monitor Fees	44,941	-	44,941	463	0%
Local Permit Fees	20,000	-	20,000	206	0%
Local Development Impact Fees	-	-	-	-	0%
Other Local Fees	-	-	-	-	0%
Advertising & Marketing Expenses	-	-	-	-	0%
1st Year Taxes & Insurance	52,281	-	52,281	539	1%
Furnishings	75,000	-	75,000	773	1%
Final Cost Audit Expense	7,500	-	7,500	77	0%
Miscellaneous Admin Fees	-	8,429	8,429	87	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Other Expenses	**199,722**	**8,429**	**208,151**	**2,146**	**2%**
SUBTOTAL PROJECT COSTS	**8,640,769**	**4,313,429**	**8,659,198**	**89,270**	**89%**
DEVELOPER COSTS					
Developer Overhead/Profit (5% Acq.)	-	-	-	-	0%
Developer Overhead/Profit (NC/Rehab)	576,554	476,095	1,052,649	10,852	11%
Consultant / Processing Agent	-	-	-	-	0%
Project Administration	-	-	-	-	0%
Broker Fees to a related party	-	-	-	-	0%
Construction Mgmt. Oversight	-	-	-	-	0%
Other	-	-	-	-	0%
Total Developer Fee / Costs	**576,554**	**476,095**	**1,052,649**	**10,852**	**11%**
Total Costs	**9,217,323**	**4,789,524**	**9,711,847**	**100,122**	**100%**

Annual Operating Budget — Parkview Apartments

Final Commitment — 06-079-A/N

INCOME	Amount	% of Total	$ Per Unit
Total Rental Income	$1,022,592	99.55%	10,542
Laundry	$4,640	0.45%	48
Other Income	$0	0.00%	-
Gross Potential Income (GPI)	**$1,027,232**	**100.00%**	**10,590**
Less:			
Vacancy Loss	$51,362	5.00%	530
Effective Gross Income	**$975,871**	**95.00%**	**10,061**

EXPENSES	Amount	% of Total	$ Per Unit
Payroll			
On-Site Manager	$0	0.00%	-
Maintenance	$38,500	4.32%	397
Grounds Maintenance	$0	0.00%	-
Other - Office	$35,329	3.97%	368
Other	$0	0.00%	-
Subtotal Payroll	**$73,829**		
Payroll Taxes/Workers Comp.	$0	0.00%	-
Employee Benefits	$25,045	0.00%	258
Value of staff rent free units	$0	2.81%	-
Total Payroll	**$98,874**	**11.11%**	1,019
Administrative Expenses			
Renting Expense	$2,782	0.31%	29
Office Supplies/Minor Equipment	$6,095	0.68%	63
Management Fee	$51,798	5.31%	534
Legal	$1,210	0.14%	12
Audit Expenses (Project Only)	$7,200	0.81%	74
Accounting /Bookkeeping	$0	0.00%	-
Telephone	$0	0.00%	-
Communication/Answering Services	$5,943	0.67%	61
Other	$5,718	0.64%	59
Total Administrative	**$80,746**	**9.07%**	832
Utilities			
Electricity	$12,163	1.37%	125
Water and Sewer	$51,448	5.78%	530
Gas	$0	0.00%	-
Other	$0	0.00%	-
Other	$0	0.00%	-
Total Utilities	**$63,611**	**7.15%**	656

EXPENSES (Cont'd)	Amount	% of Total	$ Per Unit
Operating and Maintenance			
Maintenance Supplies	$6,657	0.7%	69
Maintenance and Repair Services	$13,589	1.5%	140
Grounds Contract and Services	$29,411	3.3%	303
Grounds Supplies	$0	0.0%	-
Janitorial Supplies	$0	0.0%	-
Security Services	$9,449	1.1%	97
Elevator Maintenance	$0	0.0%	-
Extermination / Pest Control	$0	0.0%	-
Trash Removal	$12,240	1.4%	126
Heating & A/C Services	$0	0.0%	-
Interior Painting & Decorating Expenses	$11,000	1.2%	113
Contract Services	$0	0.0%	-
Other - reduction to reflect renovation	$3,649	0.4%	38
Total Operating and Maintenance	**$85,995**	**9.7%**	887
Insurance, Taxes and Misc.			
Property Insurance Impound	$36,804	4.1%	379
Earthquake Insurance Impound	$14,919	1.7%	154
Fidelity Insurance Expenses	$0	0.0%	-
Business Tax	$1,604	0.2%	17
Locality Compliance Monitoring Fee	$0	0.0%	-
Real Property Taxes - Impound	$7,355	0.8%	76
Real Property Special assessments	$0	0.0%	-
Replacement Reserve - Impounds	$48,500	5.4%	500
Land Lease	$0	0.0%	-
Other	$0	0.0%	-
Total Insurance, Taxes & Misc.	**$109,182**	**12.3%**	1,126
Subtotal Operating Expenses	**$438,408**	**49.2%**	4,520
Financial Expenses			
CalHFA First Mortgage*	$261,995	29.4%	2,701
CalHFA Second Mortgage*	$189,827	21.3%	1,957
Other Required Debt Service	$0	0.0%	-
Total Financial	**$451,822**	**50.8%**	4,658
TOTAL PROJECT EXPENSES	**$890,230**	**100.0%**	9,178
Net Revenue or (Deficit)	**$85,641**	**9.6%**	883
Operating Expenses % of EGI	**44.92%**		

Cash Flow	Final Commitment						CalHFA Project Number: 06-079-A/N		Parkview Apartments			
RENTAL INCOME	Rehab Yr.1	Rehab Yr.2	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Affordable Rents	792,072	811,874	832,171	852,975	874,299	896,157	918,561	941,525	965,063	989,189	1,013,919	1,039,267
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Rental Subsidies	230,520	230,520	230,520	230,520	230,520	230,520	230,520	230,520	230,520	235,130	239,833	244,630
Rental Subsidy Increases	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%
Unrestricted Units	0	0	0	0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	1,022,592	1,042,394	1,062,691	1,083,495	1,104,819	1,126,677	1,149,081	1,172,045	1,195,583	1,224,320	1,253,752	1,283,897
OTHER INCOME												
Laundry	4,640	4,756	4,875	4,997	5,122	5,250	5,382	5,516	5,654	5,795	5,940	6,089
Other Income	0	0	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
TOTAL OTHER INCOME	4,640	4,756	4,875	4,997	5,122	5,250	5,382	5,516	5,654	5,795	5,940	6,089
GROSS POTENTIAL INCOME	1,027,232	1,047,150	1,067,566	1,088,492	1,109,942	1,131,927	1,154,462	1,177,561	1,201,237	1,230,115	1,259,692	1,289,985
VACANCY ASSUMPTIONS												
Affordable (Blended Average)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Rental Subsidy Income	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Unrestricted Units	0%	0%	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%	5.00%	5.00%
LESS: VACANCY LOSS	51,362	52,358	53,378	54,425	55,497	56,596	57,723	58,878	60,062	61,506	62,985	64,499
EFFECTIVE GROSS INCOME	975,871	994,793	1,014,188	1,034,068	1,054,444	1,075,331	1,096,739	1,118,683	1,141,175	1,168,609	1,196,708	1,225,486
OPERATING EXPENSES												
Expenses	382,553	395,942	409,800	424,143	438,988	454,353	470,255	486,714	503,749	521,380	539,629	558,516
Annual Expense Increase	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Taxes and Assessments	7,355	7,502	7,652	7,805	7,961	8,121	8,283	8,449	8,618	8,790	8,966	9,145
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Replacement Reserve	0	0	48,500	48,985	49,475	49,970	50,469	50,974	51,484	51,999	52,519	53,044
Percentage Increase Yearly	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
TOTAL EXPENSES	389,908	403,444	465,952	480,934	496,425	512,443	529,008	546,137	563,851	582,169	601,113	620,705
NET OPERATING INCOME	585,963	591,348	548,235	553,134	558,020	562,888	567,732	572,546	577,324	586,440	595,595	604,782
DEBT SERVICE												
CalHFA - 1st Mortgage	261,995	261,995	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197
CalHFA - Bridge Loan	0	0	0	0	0	0	0					
CalHFA - 2nd Mortgage	189,827	189,827	189,827	189,827	189,827	189,827	189,827	189,827	189,827	189,827	189,827	189,827
None	0	0	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0	0	0
DEBT COVERAGE RATIO	1.30	1.31	1.12	1.13	1.14	1.15	1.16	1.17	1.18	1.19	1.21	1.23
Cash Available for distribution	134,141	139,527	57,211	62,110	66,996	71,864	76,708	81,522	86,301	95,417	104,571	113,758

Cash Flow	CalHFA Project Number: 06-079-A/N						Parkview Apartments			
RENTAL INCOME	**Year 11**	**Year 12**	**Year 13**	**Year 14**	**Year 15**	**Year 16**	**Year 17**	**Year 18**	**Year 19**	**Year 20**
Affordable Rents	**1,065,249**	**1,091,880**	**1,119,177**	**1,147,156**	**1,175,835**	**1,205,231**	**1,235,362**	**1,266,246**	**1,297,902**	**1,330,350**
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	**249,522**	**254,513**	**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	**1,314,771**	**1,346,393**	**1,119,177**	**1,147,156**	**1,175,835**	**1,205,231**	**1,235,362**	**1,266,246**	**1,297,902**	**1,330,350**
OTHER INCOME										
Laundry	**6,241**	**6,397**	**6,557**	**6,721**	**6,889**	**7,061**	**7,238**	**7,419**	**7,604**	**7,794**
Other Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
TOTAL OTHER INCOME	**6,241**	**6,397**	**6,557**	**6,721**	**6,889**	**7,061**	**7,238**	**7,419**	**7,604**	**7,794**
GROSS POTENTIAL INCOME	**1,321,012**	**1,352,790**	**1,125,734**	**1,153,877**	**1,182,724**	**1,212,292**	**1,242,600**	**1,273,665**	**1,305,506**	**1,338,144**
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
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	*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	**66,051**	**67,639**	**56,287**	**57,694**	**59,136**	**60,615**	**62,130**	**63,683**	**65,275**	**66,907**
EFFECTIVE GROSS INCOME	**1,254,961**	**1,285,150**	**1,069,447**	**1,096,183**	**1,123,588**	**1,151,678**	**1,180,470**	**1,209,981**	**1,240,231**	**1,271,237**
OPERATING EXPENSES										
Expenses	578,064	598,296	619,236	640,910	663,342	686,559	710,588	735,459	761,200	787,842
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	9,328	9,514	9,705	9,899	10,097	10,299	10,505	10,715	10,929	11,148
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	53,574	54,110	54,651	55,198	55,749	56,307	56,870	57,439	58,013	58,593
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	**640,966**	**661,920**	**683,592**	**706,006**	**729,188**	**753,164**	**777,963**	**803,612**	**830,142**	**857,583**
NET OPERATING INCOME	**613,995**	**623,230**	**385,855**	**390,177**	**394,400**	**398,513**	**402,507**	**406,369**	**410,089**	**413,654**
DEBT SERVICE										
CalHFA - 1st Mortgage	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197
CalHFA - Bridge Loan										
CalHFA - 2nd Mortgage	189,827	189,827	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
DEBT COVERAGE RATIO	**1.25**	**1.27**	**1.28**	**1.30**	**1.31**	**1.32**	**1.34**	**1.35**	**1.36**	**1.37**
Cash Available for distribution	**122,972**	**132,206**	**84,658**	**88,980**	**93,203**	**97,316**	**101,309**	**105,172**	**108,892**	**112,457**

Cash Flow	CalHFA Project Number: 06-079-A/N								Parkview Apartments	
RENTAL INCOME	**Year 21**	**Year 22**	**Year 23**	**Year 24**	**Year 25**	**Year 26**	**Year 27**	**Year 28**	**Year 29**	**Year 30**
Affordable Rents	1,363,609	1,397,699	1,432,641	1,468,457	1,505,169	1,542,798	1,581,368	1,620,902	1,661,425	1,702,960
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	1,363,609	1,397,699	1,432,641	1,468,457	1,505,169	1,542,798	1,581,368	1,620,902	1,661,425	1,702,960
OTHER INCOME										
Laundry	7,989	8,189	8,393	8,603	8,818	9,039	9,265	9,496	9,734	9,977
Other Income	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
TOTAL OTHER INCOME	7,989	8,189	8,393	8,603	8,818	9,039	9,265	9,496	9,734	9,977
GROSS POTENTIAL INCOME	1,371,597	1,405,887	1,441,035	1,477,060	1,513,987	1,551,837	1,590,632	1,630,398	1,671,158	1,712,937
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
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	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	68,580	70,294	72,052	73,853	75,699	77,592	79,532	81,520	83,558	85,647
EFFECTIVE GROSS INCOME	1,303,018	1,335,593	1,368,983	1,403,207	1,438,288	1,474,245	1,511,101	1,548,878	1,587,600	1,627,290
OPERATING EXPENSES										
Expenses	815,416	843,956	873,494	904,066	935,709	968,459	1,002,355	1,037,437	1,073,747	1,111,329
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	11,371	11,598	11,830	12,067	12,308	12,554	12,805	13,061	13,323	13,589
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	59,179	59,771	60,369	60,972	61,582	62,198	62,820	63,448	64,083	64,723
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	885,966	915,325	945,693	977,106	1,009,599	1,043,211	1,077,980	1,113,947	1,151,153	1,189,641
NET OPERATING INCOME	417,052	420,268	423,290	426,102	428,689	431,034	433,121	434,932	436,448	437,649
DEBT SERVICE										
CalHFA - 1st Mortgage	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197	301,197
CalHFA - Bridge Loan										
CalHFA - 2nd Mortgage	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
DEBT COVERAGE RATIO	1.38	1.40	1.41	1.41	1.42	1.43	1.44	1.44	1.45	1.45
Cash Available for distribution	115,854	119,071	122,093	124,905	127,491	129,837	131,924	133,735	135,251	136,452

DELORME

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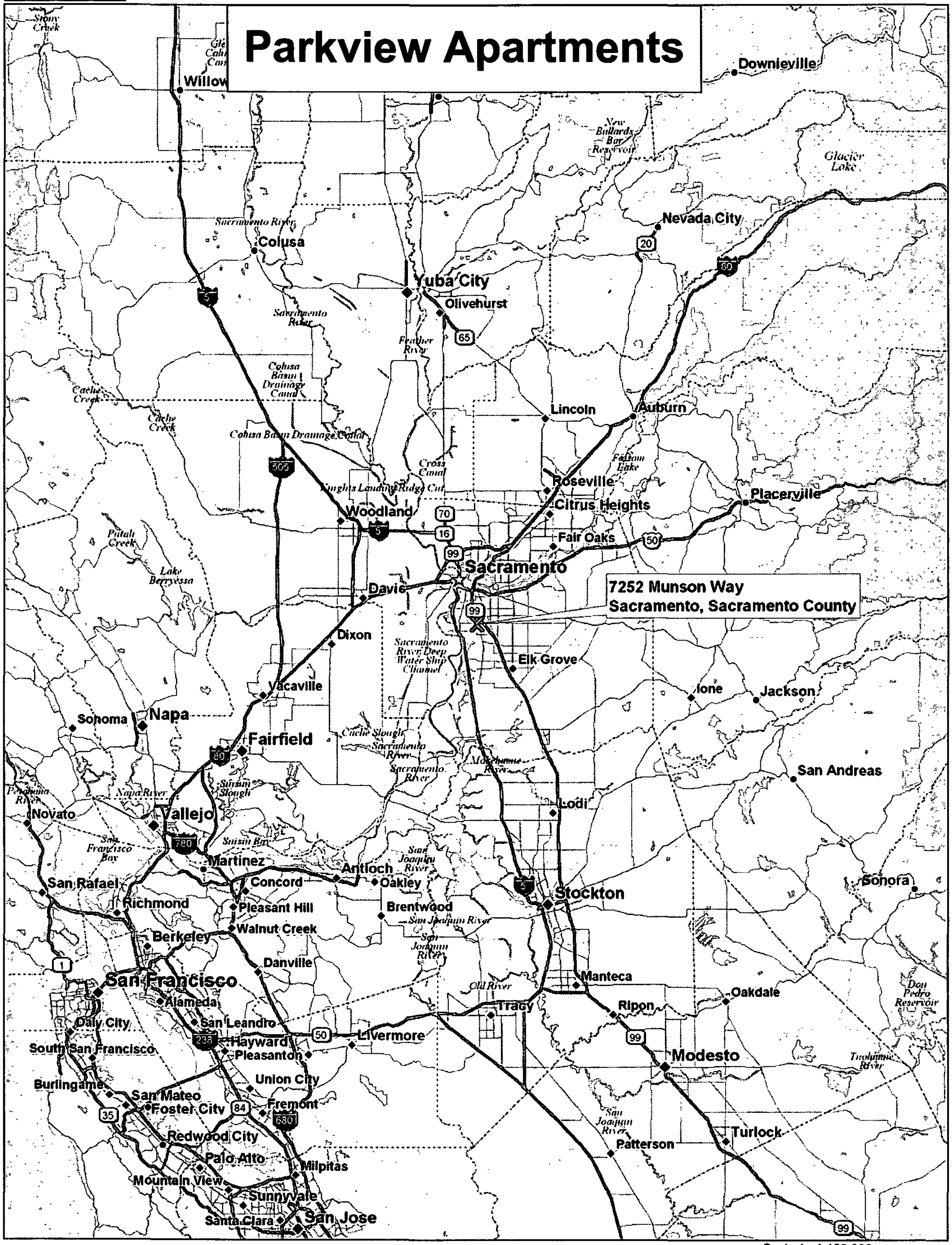

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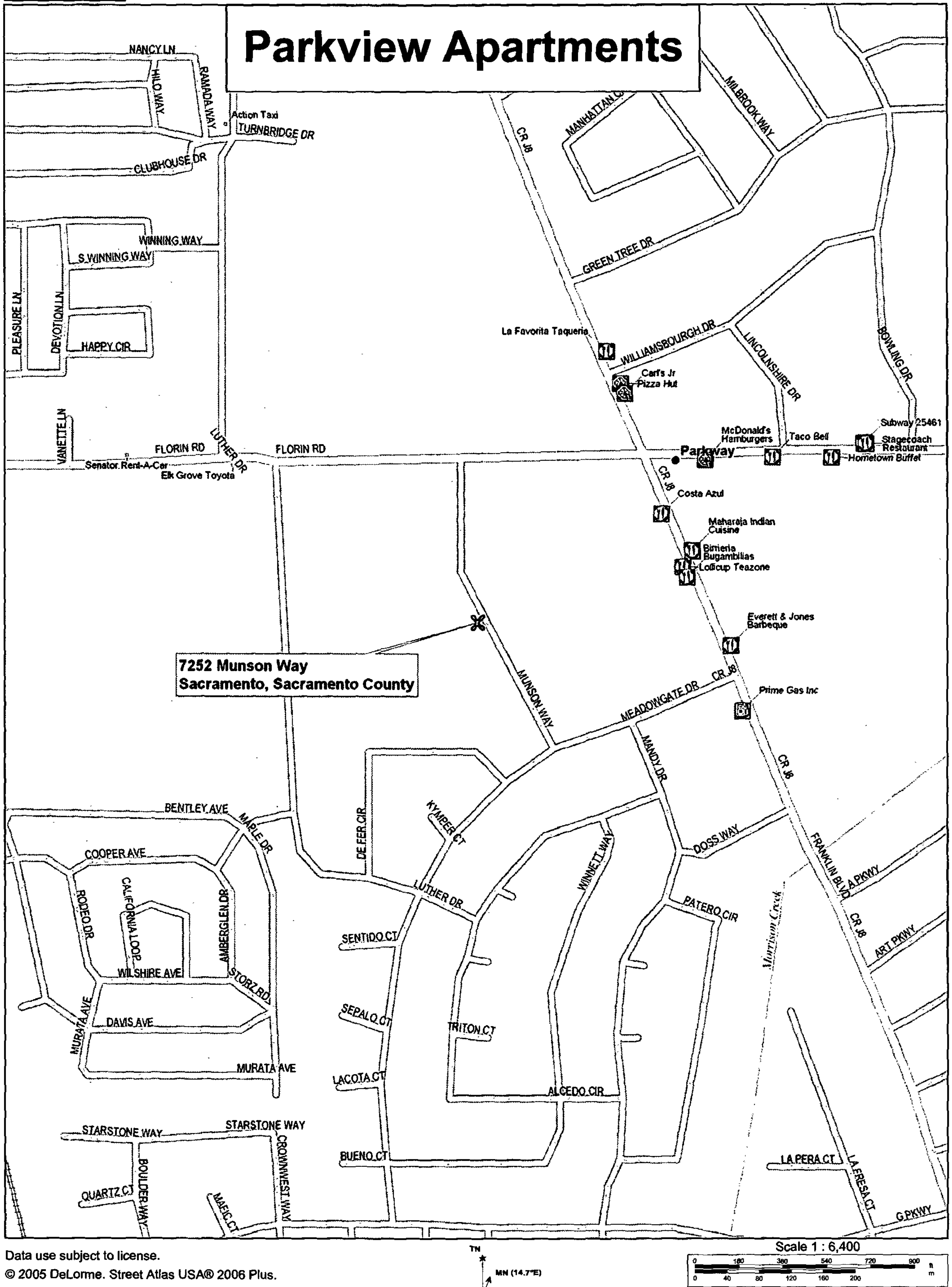

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RESOLUTION 07-12

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Parkview Affordable, 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 Sacramento, to be known as Parkview Apartments (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 April 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:

PROJECT NUMBER	DEVELOPMENT NAME/ LOCALITY	MORTGAGE AMOUNT
06-079-A/N	Parkview Apartments/97 Units Sacramento/Sacramento County	Ac/Rehab 1^{ST} Mortgage: \$4,295,000 Ac/Rehab 2^{nd} Mortgage: \$1,885,000 Permanent 1^{st} Mortgage: \$4,520,000

Resolution 07-12
Page 2

2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 07-12 adopted at a duly constituted meeting of the Board of the Agency held on May 10, 2007 at Burbank, California.

ATTEST:______________________
Secretary

CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Yosemite Manor
Madera, Madera County, CA
CalHFA # 07-005-A/N

SUMMARY

This is a Final Commitment request. Security for the acquisition/rehabilitation and permanent loans will be a 76-unit senior apartment complex known as Yosemite Manor, located at 108 South "P" Street, Madera, California. MORES Yosemite Manor, L.P., whose managing general partners are Madera Opportunities for Resident Enrichment and Services, Inc. (MORES) and the Housing Authority of the City of Madera (both California nonprofit corporations) will own the project.

Yosemite Manor is an existing CalHFA portfolio loan currently owned by the Housing Authority of the City of Madera. The project was constructed in 1979 and is a 76-unit, three-story, 3 building (connected by open-air walkways), U-shaped building, senior apartment complex. The project is 100% Section 8 and the initial 5-year HAP contract plus seven (7) additional 5-year renewals (40 years total) expires on January 30, 2020. The Borrower will seek a new HAP contract upon expiration. CalHFA loan terms and conditions may be modified by staff in the event said approvals impact the transaction.

LOAN TERMS

Acquisition/Rehabilitation

First Mortgage	$3,400,000
Interest Rate	6.10%, variable
Term	12 Months, interest only
Financing	Tax-exempt
Second Mortgage*	$810,000
Interest Rate	5.30%
Term	15 year fixed, fully amortized
Financing	Tax-exempt

*At the time of permanent loan funding, this loan will remain in place and will be subordinate to the CalHFA's Permanent First Mortgage.

Permanent

First Mortgage	$950,000
Interest Rate	5.30%
Term	30/15 year fixed, fully amortized*
Financing	Tax-exempt

*If the HUD Section 8 subsidy is extended past the remaining 13+ year term, the loan term will remain at 30 years. Otherwise, the loan is due and payable when the subsidy expires.

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

OTHER FINANCING

MORES is providing a $600,000 capital contribution (grant) with no payback provisions. The Housing Authority of the City of Madera will carry back a loan of $2,100,000, 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 20, 1980, for a term of 5 years. The HAP contract expired on January 20, 1985, and by its terms, was extended for the first of seven (7) additional 5-year terms (35 years total). The contract is in the fifth 5-year renewal period. 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"). The HAP assignment is currently in process.

CalHFA is currently seeking approval from the Sacramento HUD office recommending that the existing 13-year HAP contract remain in place with HUD. A response from HUD is still pending.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract or other HUD subsidies.

This project is a pre-1980 HAP contract with limited distribution to the project sponsor. The existing operating reserves will be transferred with the property at the time of sale to MORES Yosemite Manor, L.P., upon ownership.

PROJECT DESCRIPTION

Project Location

- The project is located in the southwest portion of Madera, in the San Joaquin Valley area of Madera County, 18 miles north of Fresno, and 80 miles southeast of San Jose.
- The site is located between Interstate 5 and Highway 99, just over 1 mile west of Highway 99, which is the major north/south route through the region. Just north of the site, Highway 152 travels east to west and provides access to Santa Cruz and the Bay Area.
- Madera is surrounded by the cities of Fresno and Bakersfield to the south, Modesto to the north, Los Banos to the west, and Yosemite and Sequoia National Forest/Parks to the east/
- Land uses in the site vicinity include single family houses to the north, vacant commercial and single family homes to the south, single family homes to the east, and a laundromat, coffee shop, and gas station to the west.

- Proximity to off-site amenities include a bus stop directly adjacent to the project, the Madera City Police and Fire Department is 0.9 miles northeast, Save Mart Supermarket is 0.2 miles west, the Senior Center is 0.9 miles east, the Madera Medical Pharmacy is 0.8 miles south, the Madera Community Hospital is 1.9 miles to the south and the Madera County Library is 0.7 miles northeast.

Site

- The site is a rectangular shape parcel and is 1.29 acres in size.
- The site is zoned R-3, Multifamily Residential. The site and its use are legally conforming.
- The subject and surrounding land uses are consistent with the zoning of the area.

Improvements

- This 76-unit senior project was built in 1979 and consists of 3, three-story U-shaped buildings connected by open-air walkways. The basic structure is wood frame with stucco exterior. Access for all the units is through a secure main pedestrian entrance. Ornamental fencing surrounds the property. Common interior hallways lead to each of the units with two elevators and interior stairways providing access to the second and third floor units. The roofing on the building is the original roof covering just over 28 years old.
- All of the 76 one -bedroom units are flat style units. Six (6) of the 76 units are accessible units. Each unit has a garbage disposal, oven/range combination, dishwasher, and refrigerator. Only the ground floor units (25) have a patio/balcony area. Each unit also contains a gas wall heater and a wall air conditioner.
- The common area amenities include a community room with a kitchen, laundry facilities, library and computer room, a manager's office and other offices.
- The project offers 34 uncovered, open parking spaces.

PHYSICAL NEEDS ASSESSMENT / SCOPE OF WORK

- The project is in good condition for a development of this age. The project been fairly well maintained since its construction in 1979, but many interior and exterior finishes are original.
- The scope of rehabilitation work totals $1,544,800 or $20,326 per unit and includes:
- **Site work, $228,600** – concrete repair, parking lot paving and restriping ($28,600), concrete repairs ($30,000), security system ($50,000), ADA upgrades ($40,000), landscaping upgrades ($55,000), signage, and miscellaneous ($25,000).
- **Building and Residential Units, $1,098,700** – exterior, interior, common area painting ($140,000), exterior paneling, trim, awnings, dry rot repair ($187,000) roof repair ($107,000), windows and sliding glass doors ($117,400), elevator upgrades ($50,000) flooring ($52,000), kitchen cabinets and counters ($202,430), fixtures and appliances ($131,070), interior/exterior lighting ($40,000), and rough carpentry ($71,800).
- **Mechanical systems, $217,500** – new wall a/c units and remove existing ($87,500), wall furnace thermostats/electrical ($28,000), and fire alarm, fire sprinklers, and life safety ($102,000).

Work is scheduled to commence in mid summer 2007 and is projected to be completed within 12 months.

Off-site improvements

- No off-site improvements and/or costs are required.

Relocation

- There is approximately $50,000 in relocation expense allocated for this project. Most of the renovation will take place around the occupied units. The Housing Authority's rehabilitation plan does not assume invasive construction activity. However, specific interior unit renovation such as window replacement, vinyl flooring, and cabinet replacement is going to take place on a cluster basis (groups of units) and is scheduled to be completed within 3 days and two nights. The residents will be offered a hotel voucher or cash equivalent for the period of their displacement. The Borrower will provide transportation and moving arrangements. In addition, these temporary displaced residents shall be entitled to compensation for all reasonable out of pocket expenses incurred in connection with temporary relocation.

  The Housing Authority will conduct tenant orientation meetings prior to the purchase of the property and before and during the rehabilitation period regarding the scope of work and timelines, and address any tenant issue or concerns regarding the project.

MARKET

Market Overview

The Madera Market Area (MMA) is predominately rural, but the city of Madera, and adjoining communities of Parkwood, Parksdale, and Madera Acres make up the urban area. MMA boundaries are rectangular and extend to State Highway 41 to the east, County Highway 233 to the west, County Highway 152 to the north, and Avenues 7 and 9 to the south.

As of 2006, the defined MMA comprises 92,074 people representing 24,099 households. By 2011, the estimated MMA population is forecasted to increase by over 11,000 people (12%). In addition, of the 24,099 households within the MMA, 4,152 households were aged 65+, with an anticipated increase of 7.3% over the next five years. For this project, the HUD definition of a senior is a minimum age limitation of 62 years+.

The median household income for the MMA is $39,256 with age 65+ median household income at $34,208 and nearly one-third (32%) of MMA residents have annual incomes below $25,000.

Of the 24,099 households within the MMA population, renters account for 37% of the households. The renter rate for the City of Madera is higher at 48%. Of the 4,152 households 65+, 19% were renters, in comparison to 37% across all age groups at the time of the study.

2006 census data indicates that 65+ renter households are more likely to be paying 35% or more of their income toward rent than renters overall. As of 2006, 47% of 65+ renters paid 35% or more of income toward rent, versus 39% of renters overall.

Housing Supply and Demand

- The overall occupancy rate for multifamily housing within MMA is 96.3%. The occupancy rate for market rate projects 94.6% while LIHTC is 97.8%.
- At the time of rehabilitation completion in 2008, there will be a projected total demand for 214 1-bedroom units targeting senior households in the MMA with incomes between 50% and 60% of AMI.
- Of the 18 multifamily properties surveyed within the MMA, representing 1,240 units, 667 units or 53.8% are rent restricted at or below 60% Area Median Income.
- The entire existing affordable senior housing rental stock in the MMA consists of one LIHTC project, totaling 80 1-bedroom units, within two mile of the project. The project was built in 1996 and is inferior to the subject project. This project and the subject project are 100% occupied with waiting lists.
- There are no new senior LIHTC/bond projects or senior market rate projects currently planned within the MMA.

PROJECT FEASIBILITY

Estimated Lease-up Period

- The project is currently 100% leased and the proposed rehabilitation will not interfere with occupancy.

ENVIRONMENTAL

Krazan & Associates, of Clovis, completed a Phase I Environmental Assessment report on February 28, 2007. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

SEISMIC

URS Corporation performed a seismic review assessment on March 20, 2007. The damage ratio met the Agency's seismic risk criteria and no further review is needed.

DEVELOPMENT TEAM

Borrower

MORES Yosemite Manor L.P.

- The managing general partners will be Madera Opportunities for Resident Enrichment and Services, Inc. (MORES) and Housing Authority of the City of Madera; both are California nonprofit corporations that will own the project, both are located in Madera, California. MORES, an affiliate of the Housing Authority of the City of Madera, provides services to assist low and very low income families and individuals obtain housing and become self sufficient and self reliant through social services and community development. MORES and the Housing Authority of the City of Madera are co-developers as well. Both MORES and the Housing Authority have the same Executive Director, Nicholas Benjamin.

Management Agent

The Housing Authority of the City of Madera (HACM)

- The HACM was incorporated in 1969 and will manage the property. Nicholas Benjamin, Executive Director for HACM and MORES, is a certified Public Housing Manager (PHM) and is charged with the authority and responsibility of the management system. The HACM maintains and leases 388 units within the city of Madera. In addition, the HACM administers 573 certificates and vouchers under HUD's Section 8 Choice Voucher Program.

Architect

Wald, Ruhnke & Dost Architects, LLP (WRD)

- WRD, located in Clovis/Fresno (with offices in Monterey, Salinas and Santa Cruz), has provided planning and design services since 1963. The Borrower has engaged WRD to assist them in project design, renovation, and construction management during the rehabilitation process. WRD has designed numerous multifamily projects throughout the Central Coast and Central California area.

Contractor

To be determined

PROJECT SUMMARY

PROJECT NUMBER: 07-005-A/N

Final Commitment

Project:	**Yosemite Manor**		
Location:	108 South "P" Street	***Developer:***	**Housing Authority of Madera**
City:	Madera	***Partner:***	MORES
County:	Madera	***Investor:***	TBD-Merritt Capital
Zip Code:	93637		

		No. of Buildings:	3	
Project Type:	Rehabilitation	*No. of Stories:*	3	
Occupancy:	Senior	*Residential Space*	48,994	sq. ft.
Total Units:	76	*Community/Leasing Spa*	1,526	sq. ft.
Style Units:	Garden-Low Rise	*Commercial Space*	0	sq. ft.
Elevators:	yes	*Gross Area*	50,520	sq. ft.
Total Parking	34	*Land Area*	56,192	sq. ft.
Covered	0	*Units per acre*	59	

CalHFA Acquisition/Rehab Financing	Amount	Rate	Term (Mths)
CalHFA Acquisition Financing	$3,400,000	6.100%	12
Existing Operating Reserve	$33,750		
Existing Replacement Reserve	$0		
Earned Surplus	$0		

Permanent Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage*	**$950,000**	**5.30%**	**30**
CalHFA Bridge Loan	**$0**	**0.00%**	**0**
CalHFA Second Mortgage* (funded at acquisition)	**$810,000**	**5.30%**	**15**
Source 4	$0	0.00%	0
MORES Capital Contribution **(funded at acquisition)**	$600,000	0.00%	0
Madera Housing Authority **(funded at acquisition)**	$2,100,000	3.00%	55
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 - Mezz.Loan	$0		
Deferred Dev. Fee	$49,992		
Tax Credit Equity **(100,000 funded at acquisition)**	$2,405,008		

0

Construction Valuation		Appraisal		Value Upon Completion	
Investment Value	$7,355,000	**Appraisal Date:**	**12/15/06**	**Restricted Value**	$4,190,000
Loan / Cost	59%	**Cap Rate:**	**5.75%**	**Perm. Loan / Cost**	25%
Loan / Value	57%			**Perm. Loan / Value**	42%

CalHFA Fees and Reserve Requirements

CalHFA Loan Fees	**Amount**	**Required Reserves**	**Amount**
CalHFA Acquisition Loan Fee	$31,575	Other Reserve	$0
CalHFA Permanent Loan Fees	$4,750	Replacement Resv. Initial Deposit*	$286,000
Other Fee	$0	Repl. Reserve - Per Unit/ Per Yr	$400
		*transferred from existing replacement reserves	
Construction Loan - Guarantees and Fees		CalHFA Operating Expense Reserve	$88,750
Completion Guarantee Fee	$0	Rent Up Reserve	$0
Contractors Payment/Perf. Bond	$0	Transitional Operating Reserve	$0
	$0	Other Reserve	$0

Date: 4/24/2007 **Senior Staff Date:** 4/23/2007

UNIT MIX AND RENT SUMMARY — Yosemite Manor

07-005-A/N

Total Unit Mix

# of Units	Unit Type	# of Baths	Average Sq. Ft.
70	1 Bedroom Flat	1	576
6	1 Bedroom Flat	1	828
	2 Bedroom Flat	1	
	2 Bedroom Townhome	2	
	3 Bedroom Townhome	1.5	
	4 Bedroom Townhome	2.5	
76			

Number of Regulated Units By Agency

Agency	35%	45%	50%	60%	80%
CalHFA			16		
Tax Credits				76	
Locality					
HCD					
AHP					
Zoning					
Other					

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			$585		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	19	$388		$197	66%
60%	57	$515		$70	88%
80%	0	$0		$0	0%
Two Bedroom			$0		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	0	$0		$0	0%
60%	0	$0		$0	0%
80%	0	$0		$0	0%
Three Bedroom			$0		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	0	$0		$0	0%
60%	0	$0		$0	0%
80%	0	$0		$0	0%
Four Bedroom			$0		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	0	$0		$0	0%
60%	0	$0		$0	0%
80%	0	$0		$0	0%

Sources and Uses of Funds — Yosemite Manor

07-005-A/N
Final Commitment

SOURCES OF FUNDS:	Funds in during Acq/Rehab ($)	Funds in at Permanent ($)	Total Development Sources: Total Sources of Funds ($)	Sources per Unit	%
CalHFA Acquisition Financing	3,400,000				
Construction Only Source 2	-				
Construction Only Source 3	-				
CalHFA First Mortgage*		950,000	950,000	12,500	13%
CalHFA Second Mortgage*	810,000	-	810,000	10,658	11%
Existing Replacement Reserve	-	-	-	-	0%
Earned Surplus	-	-	-	-	0%
Existing Operating Reserve	33,750	-	33,750	444	0%
MORES Capital Contribution	600,000	-	600,000	7,895	8%
Madera Housing Authority	2,100,000	-	2,100,000	27,632	30%
Source 7	-	-	-	-	0%
Source 8	-	-	-	-	0%
Source 9	-	-	-	-	0%
Source 10	-	-	-	-	0%
Source 11	-	-	-	-	0%
Source 12	-	-	-	-	0%
Income from Operations	-	-	-	-	0%
Developer Contribution - Mezz.Loan	-	-	-	-	0%
Deferred Developer Fee	38,935	49,992	88,927	1,170	1%
Tax Credit Equity	100,000	2,405,008	2,505,008	32,961	35%
Total Sources	7,082,685	3,405,000	7,087,685	93,259	100%
(Gap)/Surplus	-	-	-		

USES OF FUNDS:	Acq/Rehab ($)	Permanent ($)	Total Development Costs: Total Uses of Funds ($)	Cost per Unit	%
LOAN PAYOFFS & ROLLOVERS					
Construction Loan payoffs		**$3,400,000**			
ACQUISITION					
Lesser of Land Cost or Value	280,000	-	280,000	3,684	4%
Seller's Prepayment Penalty	-	-	-	-	0%
Legal - Acquisition Related Fees	-	-	-	-	0%
Subtotal - Land Cost / Value	280,000	-	280,000		
Existing Improvements Value	3,910,000	-	3,910,000	51,447	55%
Off-Site Improvements	-	-	-	-	0%
Other	-	-	-	-	0%
Total Acquisition	**4,190,000**	**-**	**4,190,000**	**55,132**	**59%**
REHABILITATION					
Site Work	-	-	-	-	0%
Rehab to Structures	1,544,800	-	1,544,800	20,326	22%
General Requirements	103,000	-	103,000	1,355	1%
Contractors Overhead	40,000	-	40,000	526	1%
Contractors Profit	103,000	-	103,000	1,355	1%
Contractor's Bond	-	-	-	-	0%
General Liability Insurance	25,000	-	25,000	329	0%
Environmental Mitigation Expense	-	-	-	-	0%
Prevailing Wages	-	-	-	-	0%
Other	-	-	-	-	0%
Total Rehabilitation	**1,815,800**	**-**	**1,815,800**	**23,892**	**26%**
RELOCATION EXPENSES					
Relocation Expense	50,000	-	50,000	658	1%
Relocation Compliance Monitoring	-	-	-	-	0%
Total Relocation	**50,000**	**-**	**50,000**	**658**	**1%**

(Continued on Next 2 Pages)

USES OF FUNDS (Cont'd):	Acq/Rehab ($)	Permanent ($)	Total Development Costs		
			Total Uses of Funds ($)	Cost per Unit per Unit	%
NEW CONSTRUCTION					
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%**
ARCHITECTURAL & ENGINEERING					
Architectural Design	50,000	-	50,000	658	1%
Architect's Supv during Construction	15,000	-	15,000	197	0%
Total Architectural	**65,000**	**-**	**65,000**	**855**	**1%**
Engineering Expense	-	-	-	-	0%
Engineers Supv. during Construction	10,000	-	10,000	132	0%
ALTA Survey	-	-	-	-	0%
Total Engineering & Survey	**10,000**	**-**	**10,000**	**132**	**0%**
ACQUISITION LOAN COSTS					
Acquisition Loan Interest	110,000		110,000	1,447	2%
CalHFA Acquisition Loan Fee	31,575		31,575	415	0%
Other Acquisition Loan Fees	-		-	-	0%
CalHFA Outside Legal Counsel Fees	-		-	-	0%
Other Lender Req'd Legal Fees	-		-	-	0%
Title and Recording fees	10,000		10,000	132	0%
CalHFA Req'd Inspection Fees	18,000		18,000	237	0%
Other Req'd Inspection Fees	-		-	-	0%
Prevailing Wage Monitoring Expense	-		-	-	0%
Taxes & Insurance during rehab	15,000		15,000	197	0%
Predevelopment Interest	-		-	-	0%
Cost for Completion Guarantee	-		-	-	0%
Other	-		-	-	0%
Total Acquisition Loan Expense	**184,575**	**-**	**184,575**	**2,429**	**3%**
PERMANENT LOAN COSTS					
CalHFA Perm Loan Fees	4,750	-	4,750	63	0%
CalHFA Bridge Loan Fees	-	-	-	-	0%
CalHFA Loan Application Fee	500	-	500	7	0%
Other Lender Perm. Loan Fees	-	-	-	-	0%
Title and Recording	-	5,000	5,000	66	0%
Perm. Bridge Loan Interest Expense	-	-	-	-	0%
Bond Origination Guarantee Fee	-	-	-	-	0%
Tax Exempt Bond Allocation Fee	600	-	600	8	0%
Other	-	-	-	-	0%
Total Permanent Loan Expense	**5,850**	**5,000**	**10,850**	**143**	**0%**
LEGAL FEES					
Borrower Legal Fee	30,000	-	30,000	395	0%
Syndication Legal Fee	115,000	-	115,000	1,513	2%
Total Attorney Expense	**145,000**	**-**	**145,000**	**1,908**	**2%**

USES OF FUNDS (Cont'd):	Acq/Rehab ($)	Permanent ($)	Total Development Costs Permanent of Funds ($)	Per Unit per Unit	%
CONTRACT / REPORT COSTS					
Appraisal	16,000	-	16,000	211	0%
Market Study	6,750	-	6,750	89	0%
Physical Needs Assessment	7,500	-	7,500	99	0%
HUD Risk Share Environ. Review	-	-	-	-	0%
CalHFA EQ Seismic Review Fee	3,000	-	3,000	39	0%
Environmental Phase I / II Reports	5,500	-	5,500	72	0%
Soils / Geotech Reports	-	-	-	-	0%
Asbestos / Lead-based Paint Report	-	-	-	-	0%
Noise/Acoustical/Traffic Study Report	-	-	-	-	0%
Termite/dry rot	3,000	-	3,000	39	0%
Other	-	-	-	-	0%
Total Contract Costs	**41,750**	**-**	**41,750**	**549**	**1%**
CONTINGENCY					
Hard Cost Contingency	150,000	-	150,000	1,974	2%
Soft Cost Contingency	30,000	-	30,000	395	0%
Total Contingency	**180,000**	**-**	**180,000**	**2,368**	**3%**
RESERVES					
CalHFA Operating Expense Reserve	88,750	-	88,750	1,168	1%
Construction Defects Reserve	-	-	-	-	0%
Funded Replacement Reserve	-	-	-	-	0%
Capitalized Investor Req'd Reserve	-	-	-	-	0%
Transitional Operating Reserve	-	-	-	-	0%
Total Reserves	**88,750**	**-**	**88,750**	**1,168**	**1%**
OTHER					
CTCAC App/Alloc/Monitor Fees	35,960	-	35,960	473	1%
Local Permit Fees	50,000	-	50,000	658	1%
Local Development Impact Fees	-	-	-	-	0%
Other Local Fees	-	-	-	-	0%
Advertising & Marketing Expenses	-	-	-	-	0%
1st Year Taxes & Insurance	-	-	-	-	0%
Furnishings	30,000	-	30,000	395	0%
Final Cost Audit Expense	10,000	-	10,000	132	0%
Miscellaneous Admin Fees	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Other Expenses	**125,960**	**-**	**125,960**	**1,657**	**2%**
SUBTOTAL PROJECT COSTS	**6,902,685**	**3,405,000**	**6,907,685**	**90,891**	**97%**
DEVELOPER COSTS					
Developer Overhead/Profit (5% Acq.)	-	-	-	-	0%
Developer Overhead/Profit (NC/Rehab)	35,000	-	35,000	461	0%
Consultant / Processing Agent	65,000	-	65,000	855	1%
Project Administration	80,000	-	80,000	1,053	1%
Broker Fees to a related party	-	-	-	-	0%
Construction Mgmt. Oversight	-	-	-	-	0%
Other	-	-	-	-	0%
Total Developer Fee / Costs	**180,000**	**-**	**180,000**	**2,368**	**3%**
Total Costs	**7,082,685**	**3,405,000**	**7,087,685**	**93,259**	**100%**

Annual Operating Budget — Yosemite Manor

Final Commitment — 07-005-A/N

INCOME	Amount	% of Total	$ Per Unit
Total Rental Income	$533,520	99.21%	7,020
Laundry	$4,229	0.79%	56
Other Income	$0	0.00%	-
Gross Potential Income (GPI)	**$537,749**	**100.00%**	**7,076**
Less:			
Vacancy Loss	$16,217	3.02%	213
Effective Gross Income	**$521,532**	**96.98%**	**6,862**

EXPENSES	Amount	% of Total	$ Per Unit
Payroll			
On-Site Manager	$0	0.00%	-
Maintenance	$109,242	22.02%	1,437
Grounds Maintenance	$0	0.00%	-
Other - Office	$0	0.00%	-
Other	$0	0.00%	-
Subtotal Payroll	**$109,242**		
Payroll Taxes/Workers Comp.	$3,368	0.68%	44
Employee Benefits	$0	0.68%	-
Value of staff rent free units	$0	0.00%	-
Total Payroll	**$112,610**	**22.70%**	1,482
Administrative Expenses			
Renting Expense	$1,000	0.20%	13
Office Supplies/Minor Equipment	$0	0.00%	-
Management Fee	$40,469	8.16%	532
Legal	$400	0.08%	5
Audit Expenses (Project Only)	$6,000	1.21%	79
Accounting /Bookkeeping	$0	0.00%	-
Telephone	$3,000	0.60%	39
Communication/Answering Services	$0	0.00%	-
Other	$2,800	0.56%	37
Total Administrative	**$53,669**	**10.82%**	706
Utilities			
Electricity	$29,990	6.05%	395
Water and Sewer	$21,689	4.37%	285
Gas	$12,492	2.52%	164
Other	$0	0.00%	-
Other	$0	0.00%	-
Total Utilities	**$64,171**	**12.94%**	844

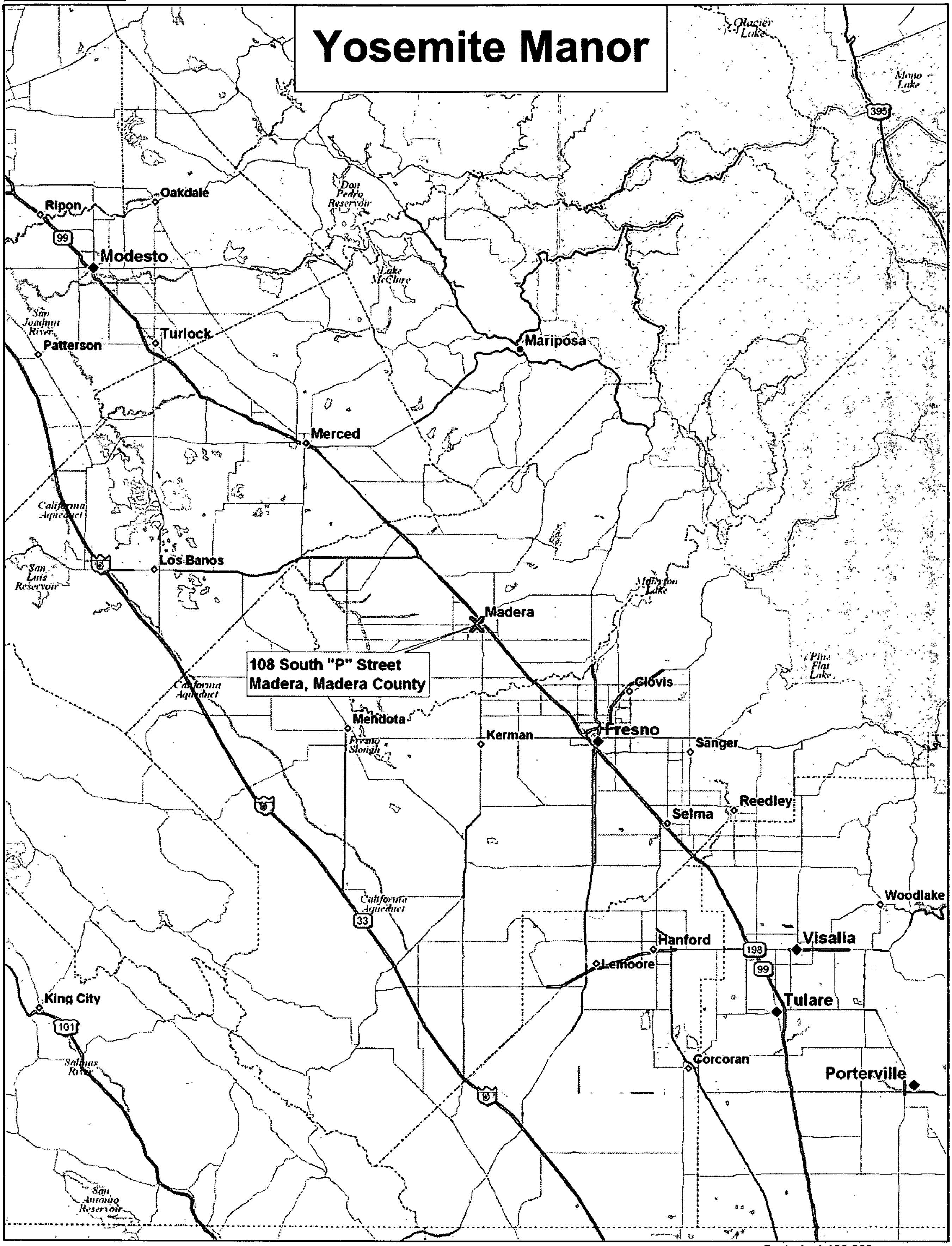
EXPENSES (Cont'd)	Amount	% of Total	$ Per Unit
Operating and Maintenance			
Maintenance Supplies	$20,849	4.2%	274
Maintenance and Repair Services	$1,018	0.2%	13
Grounds Contract and Services	$0	0.0%	-
Grounds Supplies	$0	0.0%	-
Janitorial Supplies	$0	0.0%	-
Security Services	$0	0.0%	-
Elevator Maintenance	$0	0.0%	-
Extermination / Pest Control	$0	0.0%	-
Trash Removal	$3,322	0.7%	44
Heating & A/C Services	$0	0.0%	-
Interior Painting & Decorating Expenses	$0	0.0%	-
Contract Services	$38,469	7.8%	506
Other	$3,000	0.6%	39
Total Operating and Maintenance	**$66,658**	**13.4%**	877
Insurance, Taxes and Misc.			
Property Insurance Impound	$15,194	3.1%	200
Earthquake Insurance Impound	$11,685	2.4%	154
Fidelity Insurance Expenses	$0	0.0%	-
Business Tax	$0	0.0%	-
Locality Compliance Monitoring Fee	$0	0.0%	-
Real Property Taxes - Impound	$0	0.0%	-
Real Property Special assessments	$0	0.0%	-
Replacement Reserve - Impounds	$30,400	6.1%	400
Land Lease	$0	0.0%	-
Other	$0	0.0%	-
Total Insurance, Taxes & Misc.	**$57,279**	**11.5%**	754
Subtotal Operating Expenses	**$354,387**	**71.4%**	4,663
Financial Expenses			
CalHFA First Mortgage*	$63,305	12.8%	833
CalHFA Second Mortgage*	$78,393	15.8%	1,031
Other Required Debt Service	$0	0.0%	-
Total Financial	**$141,697**	**28.6%**	1,864
TOTAL PROJECT EXPENSES	**$496,085**	**100.0%**	6,527
Net Revenue or (Deficit)	**$25,447**	**5.1%**	335
Operating Expenses % of EGI	**67.95%**		

Cash Flow	Final Commitment						CalHFA Project Number: 07-005-A/N				Yosemite Manor
RENTAL INCOME	**Rehab Yr.1**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Affordable Rents	**440,724**	**451,742**	**463,036**	**474,612**	**486,477**	**498,639**	**511,105**	**523,882**	**536,979**	**550,404**	**564,164**
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Rental Subsidies	**92,796**	**92,796**	**92,796**	**92,796**	**92,796**	**92,796**	**92,796**	**92,796**	**92,796**	**95,116**	**97,494**
Rental Subsidy Increases	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*2.50%*	*2.50%*	*2.50%*
Unrestricted Units	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Unrestricted Unit Increases	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
TOTAL RENTAL INCOME	**533,520**	**544,538**	**555,832**	**567,408**	**579,273**	**591,435**	**603,901**	**616,678**	**629,775**	**645,520**	**661,658**
OTHER INCOME											
Laundry	**4,229**	**4,334**	**4,443**	**4,554**	**4,668**	**4,784**	**4,904**	**5,027**	**5,152**	**5,281**	**5,413**
Other Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
TOTAL OTHER INCOME	**4,229**	**4,334**	**4,443**	**4,554**	**4,668**	**4,784**	**4,904**	**5,027**	**5,152**	**5,281**	**5,413**
GROSS POTENTIAL INCOME	**537,749**	**548,872**	**560,274**	**571,961**	**583,940**	**596,219**	**608,805**	**621,705**	**634,928**	**650,801**	**667,071**
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%*	*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%*	*3.00%*
Unrestricted Units	*0%*	*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%*	*5.00%*
LESS: VACANCY LOSS	**16,217**	**16,553**	**16,897**	**17,250**	**17,612**	**17,982**	**18,362**	**18,752**	**19,151**	**19,630**	**20,120**
EFFECTIVE GROSS INCOME	**521,532**	**532,320**	**543,377**	**554,711**	**566,329**	**578,237**	**590,442**	**602,953**	**615,777**	**631,171**	**646,950**
OPERATING EXPENSES											
Expenses	323,987	335,327	347,063	359,211	371,783	384,795	398,263	412,203	426,630	441,562	457,016
Annual Expense Increase	*3.50%*	*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	0
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Replacement Reserve	0	30,400	30,400	30,704	31,011	31,321	31,634	31,951	32,270	32,593	32,919
Percentage Increase Yearly	*0.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
TOTAL EXPENSES	**323,987**	**365,727**	**377,463**	**389,915**	**402,794**	**416,117**	**429,898**	**444,153**	**458,900**	**474,155**	**489,935**
NET OPERATING INCOME	**197,544**	**166,593**	**165,914**	**164,797**	**163,535**	**162,120**	**160,545**	**158,800**	**156,877**	**157,017**	**157,015**
DEBT SERVICE											
CalHFA - 1st Mortgage	97,400	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305
CalHFA - Bridge Loan	0	0	0	0	0	0	0				
CalHFA - 2nd Mortgage	78,393	78,393	78,393	78,393	78,393	78,393	78,393	78,393	78,393	78,393	78,393
None	0	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0	0
DEBT COVERAGE RATIO	**1.12**	**1.18**	**1.17**	**1.16**	**1.15**	**1.14**	**1.13**	**1.12**	**1.11**	**1.11**	**1.11**
Cash Available for distribution	**21,751**	**24,895**	**24,216**	**23,099**	**21,837**	**20,423**	**18,847**	**17,103**	**15,179**	**15,319**	**15,318**

Cash Flow	CalHFA Project Number: 07-005-A/N									Yosemite Manor
RENTAL INCOME	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Affordable Rents	578,268	592,725	607,543	622,731	638,300	654,257	670,614	687,379	704,564	722,178
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	99,931	102,429	104,990	107,615	0	0	0	0	0	0
Rental Subsidy Increases	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
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	678,199	695,154	712,533	730,346	638,300	654,257	670,614	687,379	704,564	722,178
OTHER INCOME										
Laundry	5,548	5,687	5,829	5,975	6,124	6,277	6,434	6,595	6,760	6,929
Other Income	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
TOTAL OTHER INCOME	5,548	5,687	5,829	5,975	6,124	6,277	6,434	6,595	6,760	6,929
GROSS POTENTIAL INCOME	683,748	700,841	718,362	736,321	644,424	660,535	677,048	693,974	711,324	729,107
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	20,623	21,139	21,667	22,209	19,455	19,942	20,440	20,951	21,475	22,012
EFFECTIVE GROSS INCOME	663,124	679,702	696,695	714,112	624,969	640,593	656,608	673,023	689,849	707,095
OPERATING EXPENSES										
Expenses	473,012	489,567	506,702	524,437	542,792	561,790	581,452	601,803	622,866	644,667
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	33,248	33,581	33,916	34,255	34,598	34,944	35,293	35,646	36,003	36,363
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	506,260	523,148	540,618	558,692	577,390	596,734	616,746	637,450	658,869	681,030
NET OPERATING INCOME	156,864	156,554	156,076	155,420	47,579	43,859	39,862	35,574	30,980	26,065
DEBT SERVICE										
CalHFA - 1st Mortgage	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305
CalHFA - Bridge Loan										
CalHFA - 2nd Mortgage	78,393	78,393	78,393	78,393	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
DEBT COVERAGE RATIO	1.11	1.10	1.10	1.10	0.75	0.69	0.63	0.56	0.49	0.41
Cash Available for distribution	15,167	14,857	14,379	13,723	(15,726)	(19,445)	(23,443)	(27,731)	(32,325)	(37,239)

Cash Flow	CalHFA Project Number: 07-005-A/N									Yosemite Manor
RENTAL INCOME	**Year 21**	**Year 22**	**Year 23**	**Year 24**	**Year 25**	**Year 26**	**Year 27**	**Year 28**	**Year 29**	**Year 30**	**Year 31**
Affordable Rents	**740,232**	**758,738**	**777,706**	**797,149**	**817,078**	**837,505**	**858,442**	**879,903**	**901,901**	**924,448**	**947,560**
Affordable Rent Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Rental Subsidies	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Rental Subsidy Increases	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Unrestricted Units	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Unrestricted Unit Increases	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
TOTAL RENTAL INCOME	**740,232**	**758,738**	**777,706**	**797,149**	**817,078**	**837,505**	**858,442**	**879,903**	**901,901**	**924,448**	**947,560**
OTHER INCOME											
Laundry	**7,102**	**7,280**	**7,462**	**7,648**	**7,840**	**8,036**	**8,237**	**8,442**	**8,654**	**8,870**	**9,092**
Other Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other Income Increase	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
TOTAL OTHER INCOME	**7,102**	**7,280**	**7,462**	**7,648**	**7,840**	**8,036**	**8,237**	**8,442**	**8,654**	**8,870**	**9,092**
GROSS POTENTIAL INCOME	**747,334**	**766,018**	**785,168**	**804,797**	**824,917**	**845,540**	**866,679**	**888,346**	**910,554**	**933,318**	**956,651**
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%*	*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%*	*3.00%*
Unrestricted Units	*0%*	*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%*	*5.00%*
LESS: VACANCY LOSS	**22,562**	**23,126**	**23,704**	**24,297**	**24,904**	**25,527**	**26,165**	**26,819**	**27,490**	**28,177**	**28,881**
EFFECTIVE GROSS INCOME	**724,772**	**742,892**	**761,464**	**780,500**	**800,013**	**820,013**	**840,514**	**861,527**	**883,065**	**905,141**	**927,770**
OPERATING EXPENSES											
Expenses	667,230	690,583	714,753	739,770	765,662	792,460	820,196	848,903	878,614	909,366	941,194
Annual Expense Increase	*3.50%*	*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	0
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Replacement Reserve	36,727	37,094	37,465	37,839	38,218	38,600	38,986	39,376	39,770	40,167	40,569
Percentage Increase Yearly	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
TOTAL EXPENSES	**703,957**	**727,677**	**752,218**	**777,609**	**803,880**	**831,060**	**859,182**	**888,279**	**918,384**	**949,533**	**981,763**
NET OPERATING INCOME	**20,816**	**15,215**	**9,246**	**2,891**	**(3,867)**	**(11,047)**	**(18,668)**	**(26,752)**	**(35,319)**	**(44,392)**	**(53,993)**
DEBT SERVICE											
CalHFA - 1st Mortgage	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305	63,305
CalHFA - Bridge Loan											
CalHFA - 2nd Mortgage	0	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0	0
DEBT COVERAGE RATIO	**0.33**	**0.24**	**0.15**	**0.05**	**-0.06**	**-0.17**	**-0.29**	**-0.42**	**-0.56**	**-0.70**	**-0.85**
Cash Available for distribution	**(42,489)**	**(48,090)**	**(54,059)**	**(60,413)**	**(67,171)**	**(74,351)**	**(81,973)**	**(90,057)**	**(98,624)**	**(107,697)**	**(117,298)**

DELORME Street Atlas USA® 2006 Plus



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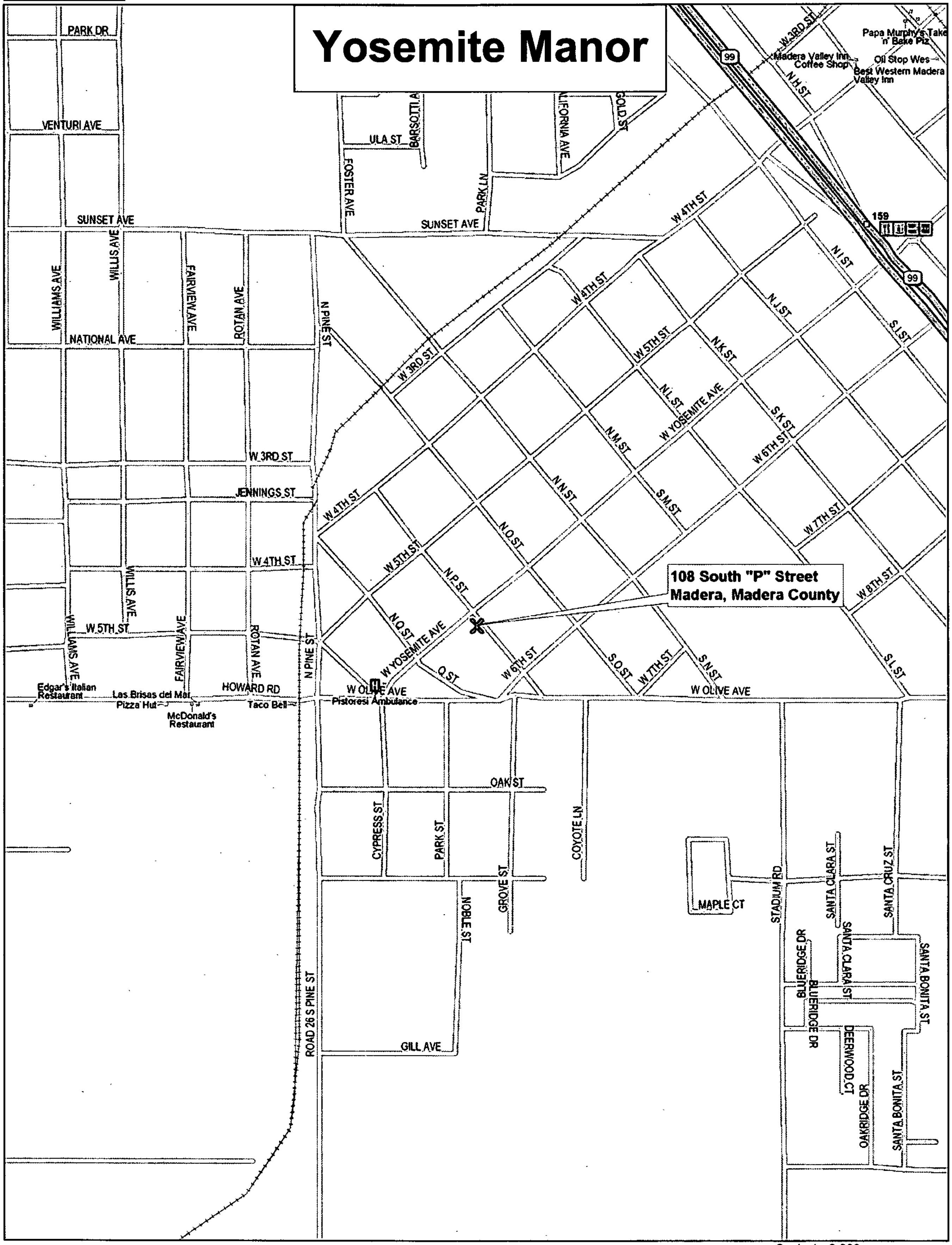

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RESOLUTION 07-13

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of MORES Yosemite Manor, 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 Madera, to be known as Yosemite Manor (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 April 23, 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:

PROJECT NUMBER	DEVELOPMENT NAME/ LOCALITY	MORTGAGE AMOUNT
07-005-A/N	Yosemite Manor/76 Units	Ac/Rehab 1ST Mortgage: $3,400,000
	Madera/Madera County	Ac/Rehab 2nd Mortgage: $810,000
		Permanent 1st Mortgage: $950,000

2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 07-13 adopted at a duly constituted meeting of the Board of the Agency held on May 10, 2007 at Burbank, California.

ATTEST:______________________
Secretary

CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Bay Area Housing Plan

SUMMARY

This is a final commitment request for $35,000,000. This request will increase the aggregate amount of the Agency's final commitment for the Bay Area Housing Plan ("BAHP") from $70,000,000 to $105,000,000. Total financing for the BAHP is anticipated to be between $105,000,000 and $120,000,000.

- The Board, at its September 8, 2005 meeting provided final commitment approval for $20,000,000 and preliminary approval of an additional $80,000,000 for total anticipated financing of $100,000,000.
- On January 12, 2006, the Board approved an additional final commitment of $25,000,000 increasing the total aggregate final commitment approved to $45,000,000. The Board also increased the remaining initial commitment to $75,000,000 for a total anticipated financing of $120,000,000.
- On November 9, 2006, the Board approved an additional final commitment of $25,000,000 increasing the total aggregate final commitment authority approved to $70,000,000. This reduced the remaining initial commitment to $50,000,000 for a total anticipated financing of $120,000,000.

Security for the loans will be deeds of trust on between 64 and 71 single family homes modified for use by 254 developmentally disabled adults exiting the Agnews Developmental Center. Debt Service will be paid directly to the Agency by the BAHP Regional Centers, on behalf of borrowers, through monthly lease payments made by the service providers for the rental of the homes.

FINANCING STRUCTURE

The basic financial structure of the BAHP is a lease/purchase/conveyance model. The Master Developer, Hallmark Community Services ("Master Developer"), a California a nonprofit corporation will initially own the properties. Ownership will be transferred at permanent financing to one of three limited liability companies, who in turn will lease the property to a selected service provider. A portion of the lease payment will be sent directly to the Agency by the Regional Center as a debt service payment. The Regional Centers are reimbursed for their costs via annual contracts with the California Department of Developmental Services ("DDS"). DDS receives funds for these contracts through annual appropriations from the State Legislature. The lease payments will be guaranteed through "Lease Assurance Agreements" executed by the Regional Centers. There will also be additional collateral in the form of cash totaling 5% of the amount of the Agency loan on each home.

Each Regional Center has designated a nonprofit organization for its service area, each of which has formed a limited liability company to hold the properties. The Bay Area Housing Corporation is the designated nonprofit organization ("NPO") for the San Andreas Regional Center. The Housing Consortium of the East Bay is the designated NPO for the Regional

Center of the East Bay. The West Bay Housing Corporation is the designated NPO for the Golden Gate Regional Center.

The Regional Centers receive all of their funds from DDS. The Regional Centers are responsible for funding all necessary housing and service costs under the lease, which cost is a fundable obligation in the Regional Center's contracts with DDS. DDS funds its obligations from the annual appropriations, and receives up to a 50% reimbursement from Medicaid under a well-established community placement Medicaid Waiver.

LOAN TERMS

Permanent Commitment	Previous Approvals	New Aggregate Request Including this approval of $35,000,000
Total First Mortgages	**$70,000,000**	**$105,000,000**
Interest Rate	150 basis points above the Agency's cost of funds	150 basis points above Agency's cost of funds
Term	15 - year fixed, fully amortized	15 - year fixed, fully amortized
Financing	Tax-exempt and Taxable fixed rate bonds	Tax-exempt and Taxable fixed rate bonds

This final commitment gives staff authority to enter into a series of loan commitments on properties up to an aggregate amount of $105,000,000.

Staff anticipates that the Regional Centers will formally reduce the number of homes in the BAHP from 71 to approximately 64 homes. If they reduce the number of homes, staff anticipates that this may be the last request to the Board of Directors for an additional commitment of funds for the BAHP. Staff anticipates returning to the Board for additional authority in either July or September of 2007.

Loan Fees and Other Costs

The Agency will collect a 1% loan fee of $350,000 for this additional commitment which will be paid by the Regional Centers from their own funds. It will not be financed from Agency loan proceeds. The loan fee will be due at the May 2007 Board meeting.

ADDITIONAL COMMITMENT AUTHORITY

It is anticipated that $35,000,000 of Permanent Commitment authority will be committed by Agency staff by the September 15, 2007. This additional commitment authority will allow the Master Developer to acquire 64 homes needed to house the current residents of the Agnews Developmental Facility.

Properties Purchased to Date with Agency Permanent Loan Commitments

The Agency has issued Permanent Commitments under the Loan Purchase Agreement on 26 as of April 10, 2007 which totals $44,816,000.

Properties in the Pipeline

The Master Developer has a pipeline of an additional twenty homes. The anticipated Agency Permanent Commitment requirement for these homes is $33,428,000.

- Ten (10) properties are under contract and the Agency expects to issue Final Commitments for them between now and the end of May 2007.
- Six (6) homes were purchased by the Master Developer using an acquisition loan from Mechanics Bank. It is anticipated that it will be transferred to Bank of America line at the point that the Master Developer is ready to start construction.
- Four (4) properties are already rehabilitated properties in Cupertino that were acquired and rehabilitated by Hallmark Corporation in 2005. Ownership will be transferred to Hallmark Community Services in May of 2007, at which time they will be financed by Bank of America. The Agency intends to purchase the notes for these properties in late May 2007 utilizing Agency funds in advance of the first bond issuance.

The combined commitment requirement for all 46 properties is $78,244,000. When the Construction Lender required 10% contingency is factored in, the total Agency Permanent Commitment required will be $84,244,000. This is $14,244,000 less than the currently available Permanent Commitment Authority.

Projected Acquisitions.

An additional 18 to 21 properties are projected to be acquired by the Master Developer by the end of September 2007, will bring the total number of properties acquired to between 64 and 67. The total Commitment Authority needed for all 67 properties is anticipated to be $40,000,000.

CONSTRUCTION LENDER CAP/ AGENCY LOAN PURCHASE

The construction lender is Bank of America ("Bank of America"). It is acting as the administrative agent for a syndicate of lenders and has imposed a $60,000,000 cap on outstanding loan commitments on their $125,000,000 credit authority. We anticipate that that cap will be reached in early May 2007.

The Master Developer must complete construction on all of the homes by June of 2008 to meet the legislative deadline for the closing of the Agnews Developmental Facility. Because of this deadline, it is not feasible for the Master Developer to stop acquisition activity until the Agency Loan Purchase of the first 32 properties and the first Agency bond sale.

It was initially contemplated that the Agency would purchase the notes from Bank of America with bond proceeds within six months of the Agency acceptance of the construction ("Stabilization"); that the Agency would issue bonds during that six month time period; and that Agency loan purchase would follow bond purchase after one month after bond sale.

The Master Developer has requested that the Agency purchase between $60,000,000 and $80,000,000 in loans from Bank of America and one month after Stabilization with other available Agency funds and prior to the first bond sale. The Agency has agreed to this in concept and is currently working thorough the details with the Master Developer.

Staff currently estimates that there will be two bond sales, and that the first bond sale will occur in November of 2007.

Design, Permit, Pre-Hard Cost Approval and the Bid Process.

To date 22 properties are in the design process. Six complete Pre-Hard Cost Packages have been submitted to Bank of America and the Agency for review.

Permit Approval

To date, the properties have been acquired in 13 jurisdictions: Livermore, Union City, Castro Valley, Hayward, Alameda, Campbell, San Mateo, San Bruno, Cupertino, San Jose, Los Gatos, Morgan Hill, and South San Francisco. Properties under contract include two additional jurisdictions: Newark and Pleasant Hill.

Most jurisdictions have had various questions regarding the code requirements and licensing categories that apply to the BAHP homes.

During the Master Developer's initial research into permitting turnaround, several jurisdictions, including San Jose, offered over-the-counter permitting. However, in all cases, once the plan checkers looked more closely at the extent of renovations, they requested that the plans be submitted through the standard – non-expedited permit process. In the case of the early permit submissions, processing took up to 100 days, largely to educate the local jurisdictions on the issues code requirements and licensing categories. Currently, it is taking about 53 days to obtain permits. The Master Developer is managing the permit process in-house.

To date, the Master Developer has received building permits for eleven properties in 6 jurisdictions.

- 1529 Eden, San Jose – family teaching home (not licensed)
- 506 & 508 Northlake Drive, San Jose – family teaching home (not licensed)
- 1320 Baywood, San Jose – 962 Medical Model (licensed)
- 625 & 627 Vasona, Los Gatos– family teaching home (not licensed)
- 629 & 631 Vasona, Los Gatos– family teaching home (not licensed)
- 637 & 639 Vasona, Los Gatos– family teaching home (not licensed)
- 5508 Jasmine, Castro Valley - SRH4 (licensed)
- 2334 Oak Flat Road, San Jose – SRH3 (licensed)
- 32724 Fairfield, Union City – SRH3 (licensed)
- 2508 Regent, Livermore – 962 Medical Model (licensed)
- 2830 Medina, San Bruno – 962 Medical Model (licensed)

Eleven other properties have been submitted for permitting and are in various stages of review.

Pre-Hard Cost Approval

This process is new and required several meetings between the Master Developer, CalHFA and Bank of America, and our construction consultant to establish a process for incorporating lender comments and expediting the approval process.

The Agency has approved the "Pre-hard Cost Package for the first three properties. Bank of America is currently reviewing a change order that resulted from our review.

Construction is expected to start as soon as that review is completed.

The Agency and Bank of America are currently reviewing the Pre-Hard Cost Package for the second batch of three properties.

Construction Costs

The contractor bid packages have come slightly under the original construction cost estimates made at the time the Agency issued its Final Commitment for the homes in the form of an estoppel to Bank of America.

Batch	Property	Contractor	Original Estimate	Const. Bid	Revised Bid Amount after Review
1	1529 Eden	Hemdan, Nerheim, and Hernandez DBA HNH Construction 3478 Buskirk Ave, Suite 1025 Pleasant Hill, CA 94523	$334,557 Total: $375,355	$304,288 Total: $347,092	(+$8,750 & contingency.) Total: $356,717
1	1320 Baywood	Hemdan, Nerheim, and Hernandez DBA HNH Construction 3478 Buskirk Ave, Suite 1025 Pleasant Hill, CA 94523	$371,428 Total: $415,941	$359,282 Total: $410,006	(+$2,500 & contingency.) Total: $412,756
1	506 Northlake	Hemdan, Nerheim, and Hernandez DBA HNH Construction 3478 Buskirk Ave, Suite 1025 Pleasant Hill, CA 94523	$374,491 Total: $425,486	$333,097 Total: $389,777	(+$21,550 & contingency.) Total: $408,482
2	625-627 Vasona	PC Construction Co, Inc. DBA Pro Cal 320 Codoni Modesto, CA 95357	$313,779 Total: $352,527	$310,003 Total: $351,850	TBD
2	629-631 Vasona	PC Construction Co, Inc. DBA Pro Cal 320 Codoni Modesto, CA 95357	$317,350 Total: $356,456	$311,098 Total: $353,303	TBD
2	637-639 Vasona	PC Construction Co, Inc. DBA Pro Cal 320 Codoni Modesto, CA 95357	$315,863 Total: $354,820	$311,274 Total: $353,30	TBD

Stabilization

There is one property in the Stabilization process, which is a 962 home in Golden Gate Regional Center's catchment area. We are using this property to create a process that can be utilized across all properties on a going forward basis. We anticipate the 4 Cupertino properties will be in the Stabilization process in May.

CalHFA Loan Purchases

Hallmark Community Services and CalHFA are drafting a plan and a process to enable Stabilized properties to revolve off the Bank of America line of credit onto a CalHFA line of credit prior to bond sale as mentioned above. This will enable CalHFA to accumulate enough properties to create an attractive bond sale and will allow the Master Developer to complete the acquisition phase of the BAHP while staying within the $60,000,000 cap on the Bank of America Credit Facility Line. This involves some minor revisions on the previously approved loan purchase documents between the BAHP Regional Centers and the NPO LLC's.

We anticipate that the Agency will purchase seven loans from Bank of America totaling approximately $11,600,000 by the middle of June 2007. The properties include:

- 2830 Medina, San Bruno
- 10536 N. Foothill, Cupertino
- 10506 N. Foothill Cupertino
- 10516 N. Foothill, Cupertino
- 10526 N. Foothill Cupertino
- 205 Ginger, Morgan Hill
- 19175 Taylor, Morgan Hill

REVISIONS TO THE BAHP LOAN DOCUMENTS

All terms of the BAHP are set forth in the loan documents which were executed on March 30, 2006, including the LPA executed by and among the Construction Lender, the Master Developer and the Agency. The First Amendment to the LPA was on June 16, 2006 to bring in the three LLC's as borrowers. A Second Amendment was executed on March 21, 2007 to reflect the Agency's increase in the Agency Final Commitment Authority to $70,000,000. Also on March 21, 2007, CalHFA, the BAHP Regional Centers and HCS signed a Memorandum of Understanding under which the BAHP Regional Centers agreed to make an equity contribution of $11,115,000 to the BAHP properties.

The $11,115,000 in Regional Center Equity will be used in the following fashion.

- Payment in full of a $1,043, 574.59 note held by Bank of America. This note was for upfront costs that would have been spread among the properties. This note was paid on April 10, 2007.
- Pay down of $2,189,915 of the Bank of America notes on the first 23 properties acquired by the Master Developer. This payment will be made on or before April 21st.
- An agreement by the Regional Centers to make equity payments at Bank of America initial financing of the acquisition that will reduce the to keep the Agency Estoppel within within a maximum and minimum loan band by property type. It is anticipated that the

Regional Centers will contribute approximately $7,000,000 at acquisition into the properties. (See chart below).

- Use the remaining funds, estimated to be $1,000,000 to further pay down the Bank of America notes at Stabilization and before Agency loan purchase.

Residence Type	Minimum CalHFA 4.2 Estoppel Amount	Maximum CalHFA 4.2 Estoppel Amount	RC Minimum Equity Contribution
SRH3	Lower of $1,300,000 or the Final Proposal Amount	$1,450,000	The Final Proposal Budget Amount less $1,450,000
SRH4	Lower of $1,350,000 or Final Proposal Budget Amount	$1,490,000	The Final Proposal Budget Amount less $ 1,490,000
FTH	Lower of $1,520,000 or the Final Proposal Budget	$1,720,000	The Final Proposal Budget Amount less $ 1,720,000
962 East Bay	Lower of $1,600,000 or the Final Proposal Budget Amount	$1,810,000	The Final Proposal Budget Amount Less $1,810,000
962 South/West Bay	Lower of $1,600,000 or the Final Proposal Budget Amount	$1,935,000	The Final Proposal Budget Amount less $ 1,935,000

Bay Area Housing Plan
Project Schedule as of 4.11.07

No.	CalHFA Commitments	RC	Home Type	Tax Status	4.2 Estoppel	Close of Escrow	Pre-Hard Cost Submittal	Construction Start	Construction Finish	Stabilization
EXISTING PROPERTIES							SORTED BY			
1	1529 Eden, San Jose	SARC	FTH	Tax-Exempt	$ 1,821,000	6/24/06	2/16/07	4/12/07	6/6/07	6/20/07
5	506 & 508 Northlake Dr.,San Jose	SARC	FTH	Tax-Exempt	$ 1,837,000	7/24/06	2/16/07	4/12/07	6/6/07	6/20/07
2	1320 Baywood, San Jose	SARC	9625-R	Tax-Exempt	$ 2,008,000	7/6/06	2/22/07	4/12/07	6/6/07	6/20/07
6	625 & 627 Vasona, Los Gatos	SARC	FTH	Tax-Exempt	$ 1,806,000	7/28/06	4/5/07	4/19/07	7/3/07	7/17/07
7	629 & 631 Vasona, Los Gatos	SARC	FTH	Tax-Exempt	$ 1,819,000	7/28/06	4/5/07	4/19/07	7/3/07	7/17/07
8	637 & 639 Vasona, Los Gatos	SARC	FTH	Tax-Exempt	$ 1,803,000	7/28/06	4/5/07	4/19/07	7/3/07	7/17/07
4	5508 Jasmine, Castro Valley	RCEB	SRH4	Tax-Exempt	$ 1,694,000	7/26/06	4/13/07	4/27/07	7/11/07	7/25/07
10	2508 Regent Road, Livermore	RCEB	9625-R	Taxable	$ 1,756,000	9/25/06	4/13/07	4/27/07	7/11/07	7/25/07
12	21763 Shadysprings Rd, Castro Valley	RCEB	SRH3	Tax-Exempt	$ 1,502,000	10/3/06	5/9/07	5/23/07	8/6/07	8/20/07
14	32744 Olympiad Court, Union City	RCEB	9625-R	Tax-Exempt	$ 1,713,000	10/22/06	5/9/07	5/23/07	8/6/07	8/20/07
15	2334 Oak Flat Road, San Jose	SARC	SRH3	Taxable	$ 1,697,000	10/24/06	4/30/07	5/14/07	7/28/07	8/11/07
23	32724 Fairfield Street, Union City	RCEB	SRH3	Tax-Exempt	$ 1,499,000	11/22/06	4/30/07	5/14/07	7/28/07	8/11/07
3	227 Prague, San Mateo	GGRC	SRH3	Taxable	$ 1,689,000	7/10/06	4/12/07	4/26/07	7/10/07	7/24/07
9	1720 Pierce St., San Mateo	GGRC	SRH3	Taxable	$ 1,660,000	8/18/06	4/12/07	4/26/07	7/10/07	7/24/07
13	633 Vanessa, San Mateo	GGRC	SRH3	Taxable	$ 1,692,000	10/11/06	4/12/07	4/26/07	7/10/07	7/24/07
20	680 Edna, San Mateo	GGRC	9624-R	Taxable	$ 1,914,000	11/6/06	4/12/07	4/26/07	7/10/07	7/24/07
18	1112 Sunnyside Drive, S SF	GGRC	SRH3	Taxable	$ 1,646,000	11/6/06	4/19/07	5/3/07	7/17/07	7/31/07
19	740 Palm Ave, S SF	GGRC	SRH3	Taxable	$ 1,720,000	10/30/06	4/19/07	5/3/07	7/17/07	7/31/07
21	1169 Sand Beach Place, Alameda	RCEB	SRH3	Tax-Exempt	$ 1,576,000	10/17/06	5/9/07	5/23/07	8/6/07	8/20/07
11	4865 Wellington Park, San Jose	SARC	SRH3	Taxable	$ 1,585,000	10/2/06	4/25/07	5/9/07	7/23/07	8/6/07
22	24615 Patricia Court, Hayward	RCEB	SRH3	Taxable	$ 1,534,000	11/22/06	5/18/07	6/1/07	8/15/07	8/29/07
16	14239 Mulberry, Los Gatos	SARC	9625-N	Taxable	$ 2,086,000	10/9/06	6/17/07	7/1/07	9/14/07	9/28/07
17	1446 Flora, San Jose	SARC	9625-N	Taxable	$ 2,071,000	10/21/06	6/17/07	7/1/07	9/14/07	9/28/07
NEW PROPERTIES - STRAIGHT TO STABILIZATION										
24	2830 Medina, San Bruno	GGRC	962-4	Taxable	$ 1,792,000	3/30/07	n/a	n/a	n/a	4/30/07
25	10536 N. Foothill, Cupertino	SARC	FTH	Tax-Exempt	$ 1,657,000	4/30/07	n/a	n/a	n/a	5/10/07
26	10506 N. Foothill Cupertino	SARC	FTH	Tax-Exempt	$ 1,657,000	4/30/07	n/a	n/a	n/a	5/10/07
27	10516 N. Foothill, Cupertino	SARC	FTH	Tax-Exempt	$ 1,657,000	4/30/07	n/a	n/a	n/a	5/10/07
28	10526 N. Foothill Cupertino	SARC	FTH	Tax-Exempt	$ 1,657,000	4/30/07	n/a	n/a	n/a	5/10/07
29	205 Ginger, Morgan Hill	SARC	SRH4	Tax-Exempt	$ 1,490,000	5/30/07	n/a	n/a	n/a	5/30/07
30	19175 Taylor, Morgan Hill	SARC	962-5	Tax-Exempt	$ 1,700,000	5/30/07	n/a	n/a	n/a	5/30/07
NEW PROPERTIES										
31	2654 Chablis Way, Livermore	RCEB	962-5	Taxable	$ 1,810,000	9/15/06	4/13/07	4/27/07	7/11/07	7/25/07
32	1502 Constanso Way	SARC	SRH3	Taxable	$ 1,450,000	2/15/07	6/5/07	6/19/07	9/2/07	9/16/07
33	15134 Charmeran Ave.	SARC	SRH3	Tax-Exempt	$ 1,450,000	1/18/07	6/10/07	6/24/07	9/7/07	9/21/07
34	15470 La Alameda, Morgan Hill	SARC	962-5	Tax-Exempt	$ 1,935,000	1/9/07	6/15/07	6/29/07	9/12/07	9/26/07
35	649 Empey Way,San Jose	SARC	9625-N	Tax-Exempt	$ 1,935,000	2/15/07	6/17/07	7/1/07	9/14/07	9/28/07
36	5486 Yale Drive	SARC	SRH3	Tax-Exempt	$ 1,450,000	12/15/06	6/20/07	7/4/07	9/17/07	10/1/07
37	1908 Otis Drive, Alameda	RCEB	SRH3	Tax-Exempt	$ 1,446,000	3/20/07	6/30/07	7/14/07	9/27/07	10/11/07
38	3602 Martin, San Mateo	GGRC	SRH3	Taxable	$ 1,450,000	4/16/07	7/5/07	7/19/07	10/2/07	10/16/07
39	275 W. Dunne, Morgan Hill	SARC	SRH4	Taxable	$ 1,490,000	4/16/07	7/5/07	7/19/07	10/2/07	10/16/07
40	5242 Bristol Place, Newark	RCEB	SRH3	Taxable	$ 1,450,000	4/26/07	7/15/07	7/29/07	10/12/07	10/26/07
41	826 Calero, San Jose	SARC	962-5	Tax-Exempt	$ 1,935,000	4/26/07	7/15/07	7/29/07	10/12/07	10/26/07
42	1447 Stonehedge, Pleasant Hill	RCEB	SRH3	TBD	$ 1,450,000	5/16/07	8/4/07	8/18/07	11/1/07	11/15/07
43	441 N. Milton, Campbell	SARC	9625-N	TBD	$ 1,936,000	5/25/07	8/13/07	8/27/07	11/10/07	11/24/07
44	2917 Penitencia Creek, San Jose	SARC	SRH3	Tax-Exempt	$ 1,450,000	5/25/07	8/13/07	8/27/07	11/10/07	11/24/07
45	960 Elm Street, San Jose	SARC	9625-N	TBD	$ 1,935,000	5/31/07	8/19/07	9/2/07	11/16/07	11/30/07
46	1750 Westmont, Campbell	SARC	9625-N	TBD	$ 1,935,000	6/14/07	9/2/07	9/16/07	12/25/07	1/8/08
47	Placeholder	GGRC	SRH3	Taxable	$ 1,450,000	6/9/07	8/28/07	9/11/07	11/25/07	12/9/07
48	Placeholder	GGRC	SRH3	Taxable	$ 1,450,000	6/14/07	9/2/07	9/16/07	11/30/07	12/14/07
49	Placeholder	GGRC	SRH3	Taxable	$ 1,450,000	6/19/07	9/7/07	9/21/07	12/5/07	12/19/07
50	Placeholder	RCEB	SRH3	TBD	$ 1,450,000	6/24/07	9/2/07	9/16/07	11/30/07	12/14/07
51	Placeholder	RCEB	9625-N	TBD	$ 1,810,000	6/29/07	9/7/07	9/21/07	12/5/07	12/19/07
52	Placeholder	GGRC	962-4	Taxable	$ 1,935,000	7/4/07	9/12/07	9/26/07	12/10/07	12/24/07
53	Placeholder	SARC	962-5	TBD	$ 1,935,000	7/9/07	9/17/07	10/1/07	12/15/07	12/29/07
54	Placeholder	SARC	962-5	TBD	$ 1,935,000	7/14/07	9/22/07	10/6/07	12/20/07	1/3/08
55	Placeholder	SARC	962-5	TBD	$ 1,935,000	7/19/07	9/27/07	10/11/07	12/25/07	1/8/08
56	Placeholder	RCEB	962-5	TBD	$ 1,810,000	7/24/07	10/2/07	10/16/07	12/30/07	1/13/08
57	Placeholder	SARC	962-5	TBD	$ 1,935,000	7/29/07	10/7/07	10/21/07	1/4/08	1/18/08
58	Placeholder	SARC	SRH3	TBD	$ 1,450,000	8/3/07	10/12/07	10/26/07	1/9/08	1/23/08
59	Placeholder	RCEB	962-5	TBD	$ 1,810,000	8/8/07	10/17/07	10/31/07	1/14/08	1/28/08
60	Placeholder	SARC	962-5	TBD	$ 1,935,000	8/13/07	10/22/07	11/5/07	1/19/08	2/2/08
61	Placeholder	RCEB	SRH3	TBD	$ 1,450,000	8/18/07	10/27/07	11/10/07	1/24/08	2/7/08
62	Placeholder	SARC	962-5	TBD	$ 1,935,000	8/23/07	11/1/07	11/15/07	1/29/08	2/12/08
63	Placeholder	SARC	SRH-3	TBD	$ 1,450,000	8/28/07	11/6/07	11/20/07	2/3/08	2/17/08
64	Placeholder	SARC	SRH4	TBD	$ 1,490,000	9/2/07	11/11/07	11/25/07	2/8/08	2/22/08
65	Placeholder	SARC	TBD	TBD	TBD	9/7/07	11/16/07	11/30/07	2/13/08	2/27/08
66	Placeholder	SARC	TBD	TBD	TBD	9/12/07	11/21/07	12/5/07	2/18/08	3/3/08
67	Placeholder	SARC	TBD	TBD	TBD	9/17/07	11/26/07	12/10/07	2/23/08	3/8/08
					$ 108,859,000					

SCHEDULE ASSUMPTIONS

Key Durations	Calendar Days
Design/Permitting - Remodel (Slow)	95
Design/Permitting - Remodel (Medium)	80
Design/Permitting - Remodel (Fast)	70
Design - New Construction - New Properties	60
Pre-Hard Cost Review	14
Construction - Remodel	75
Construction - New Construction (pre-fab)	75
Construction - New Construction (site-built)	100
Stabilization	14

Key Dates	
Construction Loan Agreement Maturity	3/30/2008
CLA Maturity with 6 Mo Extension	9/30/2008
180 Days Prior to LPA Expiration	4/3/2008
Loan Purchase Expiration	9/30/2008
Projected Agnews Closure Date	6/30/2008

NOTES

1. HCS goal is for Stabilized properties to move to a warehouse line at CalHFA 14 days after Stabilization.
2. Number of projected properties has been reduced to 67 from 71.
3. Actual Permanent Financing Total expected to be lower than 4.2 Estoppel Total due to conservatism at Close of Escrow

BAY AREA HOUSING PLAN
SCHEDULE OF PROPERTIES

	Property Address	Board Comm. 09/01/05	Board Comm. 01/06/06	Board Comm 11/09/06	RC Equity	Anticipated RC Equity	CalHFA Loan #	Agency Status	Approval Date	Estimated Acquisition Date	Est design/const Start	NPO RC	CC&R's	Tax Status	Property Type	Purchase Price	Rehab Estimate	Reserve Addl Collateral	Reserve 1 YR DS	Appraisal	LTV	LTV minus DS Reserve	LTV minus all reserves
	Board Approval Amounts	$ 20,000,000	$ 25,000,000	$ 30,000,000														5%					
	Agency Commitments																						
1	1529 Eden, San Jose	$ 1,821,000				$ 26,803	06007 N BAHP	4.2 Approval	06/16/06	06/24/06	11/15/06	BAHC -SARC		Tax- Exempt	FTM Duplex	$ 875,000	$ 364,624	$ 91,050	$ 207,579	$ 875,000	208%	184%	174%
2	1320 Baywood, San Jose	$ 2,008,000				$ 26,856	06008 N BAHP	4.2 Approval	06/26/06	07/06/06	11/15/06	BAHC -SARC		Taxableable	962 Med 5	$ 925,000	$ 415,941	$ 100,400	$ 228,895	$ 925,000	217%	192%	181%
3	227 Prague, San Mateo	$ 1,689,000				$ 175,674	06009 N BAHP	4.2 Approval	07/03/06	07/10/06	11/15/06	WBHC-GGRC		Taxable	SRH 3	$ 771,000	$ 367,325	$ 84,450	$ 192,532	$ 790,000	214%	189%	179%
4	5508 Jasmine, Castro Valley	$ 1,694,000				$ 198,425	06015 N BAHP	4.2 Approval	07/17/06	07/26/06	11/15/06	HCEB-RCEB	xHOA	Tax-Exempt	SRH 4	$ 805,000	$ 332,235	$ 84,700	$ 201,549	$ 815,000	208%	183%	173%
5	506 & 508 Northlake Dr.,San Jose	$ 1,837,000				$ 33,774	06002 N BAHP	4.2 Approval	07/17/06	07/24/06	11/15/06	BAHC -SARC		Tax-Exempt	FTM Duplex	$ 820,000	$ 425,486	$ 91,850	$ 218,563	$ 820,000	224%	197%	186%
6	625 & 627 Vasona, Los Gatos	$ 1,806,000				$ 26,975	06013 N BAHP	4.2 Approval	07/26/06	07/28/06	01/31/07	BAHC -SARC		Tax-Exempt	FTM Duplex	$ 860,000	$ 352,527	$ 90,300	$ 214,875	$ 860,000	210%	185%	175%
7	629 & 631 Vasona, Los Gatos	$ 1,819,000				$ 26,975	06011 N BAHP	4.2 Approval	07/26/06	07/28/06	01/31/07	BAHC -SARC		Tax-Exempt	FTM Duplex	$ 860,000	$ 356,456	$ 90,950	$ 216,422	$ 860,000	212%	186%	176%
8	637 & 639 Vasona, Los Gatos	$ 1,803,000				$ 26,975	06012N BAHP	4.2 Approval	07/26/06	07/28/06	01/31/07	BAHC -SARC		Tax-Exempt	FTM Duplex	$ 860,000	$ 349,899	$ 90,150	$ 214,518	$ 860,000	210%	185%	174%
9	1720 Pierce St., San Mateo	$ 1,660,000				$ 146,674	06010 N BAHP	4.2 Approval	08/07/06	08/17/06	11/14/07	WBHC-GGRC		Taxable	SRH 3	$ 775,000	$ 335,701	$ 83,000	$ 197,504	$ 785,000	211%	186%	176%
10	2508 Regent Road, Livermore	$ 1,756,000				$ 27,300	06018 N BAHP	4.2 Approval	09/15/06	09/25/06	12/24/07	HCEB-RCEB		Taxable	962 Med 5	$ 835,000	$ 342,172	$ 87,800	$ 205,153	$ 840,000	209%	185%	174%
11	4865 Wellington Park, San Jose	$ 1,585,000				$ 56,324	06019N BAHP	4.2 Approval	09/28/06	10/02/06	01/04/07	BAHC -SARC	x	Taxable	SRH3	$ 762,000	$ 298,575	$ 79,250	$ 185,175	$ 775,000	205%	181%	170%
12	21763 Shadysprings Rd, Castro Valle	$ 522,000	$ 980,000			$ 120,235	06020NBAHP	4.2 Approval	09/28/06	10/03/06	01/01/07	HCEB-RCEB	x	Tax-Exempt	SRH3	$ 680,000	$ 323,655	$ 75,100	$ 175,478	$ 680,000	221%	195%	184%
13	633 Vanessa, San Mateo		$ 1,692,000			$ 178,674	06026NBAHP	4.2 Approval	10/04/06	10/11/08	01/09/07	WBHC-GGRC	x	Taxable	SRH3	$ 750,000	$ 389,074	$ 84,600	$ 197,676	$ 780,000	217%	192%	181%
14	32744 Olympiad Court, Union City		$ 1,713,000			$ 27,430	06021NBAHP	4.2 Approval	10/18/06	10/21/06	01/22/07	HCEB-RCEB		Tax-Exempt	962 Med 5	$ 880,000	$ 268,554	$ 85,650	$ 200,129	$ 880,000	195%	172%	162%
15	2334 Oak Flat Road, San Jose		$ 1,697,000			$ 168,324	06022NBAHP	4.2 Approval	10/18/06	10/24/06	01/29/07	BAHC -SARC	x	Taxable	SRH3	$ 770,000	$ 374,234	$ 84,850	$ 198,260	$ 810,000	210%	185%	175%
16	14239 Mulberry, Los Gatos		$ 2,086,000		$ 400,000	$ 53,441	06014 N BAHP	4.2 Approval	10/18/06	10/24/06	01/11/07	BAHC -SARC	x	Taxable	962 Med 5	$ 749,950	$ 708,041	$ 104,300	$ 243,706	$ 785,000	266%	235%	221%
17	1446 Flora, San Jose		$ 2,071,000		$ 400,000	$ 38,441	06030NBAHP	4.2 Approval	10/30/06	11/03/06	01/29/207	BAHC -SARC		Taxable	962 Med 5	$ 785,000	$ 681,853	$ 103,550	$ 241,216	$ 785,000	264%	233%	220%
18	1112 Sunnyside Drive, S SF		$ 1,646,000			$ 132,674	06023N BAHP	4.2 Approval	11/02/06	11/06/06	02/04/07	WBHC-GGRC	x	Taxable	SRH3	$ 849,000	$ 256,727	$ 82,300	$ 191,715	$ 849,000	194%	171%	162%
19	740 Palm Ave, S SF		$ 1,720,000			$ 206,674	06028NBAHP	4.2 Approval	11/06/06	11/09/06	02/07/07	WBHC-GGRC		Taxable	SRH3	$ 850,000	$ 309,948	$ 86,000	$ 200,334	$ 850,000	202%	179%	169%
20	680 Edna, San Mateo		$ 1,914,000			$ 27,562	06033NBAHP	4.2 Approval	11/08/06	11/10/06	02/04/07	WBHC-GGRC		Taxable	962 Med 4	$ 788,888	$ 470,550	$ 95,700	$ 222,930	$ 719,000	266%	235%	222%
21	1169 Sand Beach Place, Alameda		$ 1,576,000			$ 194,235	06024NBAHP	4.2 Approval	11/14/06	11/17/06	02/08/07	HCEB-RCEB		Tax-Exempt	SRH3	$ 719,000	$ 338,097	$ 78,800	$ 183,562	$ 725,000	217%	192%	181%
22	24615 Patricia Court, Hayward		$ 1,534,000			$ 152,235	06031NBAHP	4.2 Approval	11/15/06	11/20/06	02/14/07	HCEB-RCEB		Taxable	SRH3	$ 705,000	$ 279,308	$ 76,700	$ 178,670	$ 719,000	213%	189%	178%
23	32724 Fairfield Street, Union City		$ 1,499,000			$ 117,235	06028NBAHP	4.2 approval	11/29/06	12/04/06	02/21/07	HCEB-RCEB	x	Tax-Exempt	SRH3	$ 750,000	$ 369,203	$ 74,950	$ 174,593	$ 760,000	197%	174%	164%
24	1908 Otis Drive, Alameda		$ 1,446,000		$ 175,000		06046NBAHP	4.2 approval	03/30/07	04/05/07	04/05/07	WBHC-GGRC	x	Tax-Exempt	SRH3	$ 744,000	$ 362,130	$ 72,300	$ 166,878	$ 744,000	194%	172%	162%
25	2830 Medina, San Bruno		$ 1,792,000		$ -		06051NBAHP	4.2 approval	03/27/07	03/29/07	03/29/07	WBHC-GGRC	x	Taxable	962 Med 4	$ 1,250,000	NA	$ 16,773	$ 206,809	$ 1,250,000	143%	127%	125%
26	3508 Martin, San Mateo		$ 1,450,000	$ -	$ 261,000		06049 N BAHP	4.2 Approval	04/10/07	04/16/07	03/10/07	WBHC-GGRC	x	Taxable	SRH3	$ 880,000	$ 335,464	$ 82,850	$ 166,826	$ 880,000	165%	146%	136%
	Credit Facility Cost Note				$ 1,403,575																		
Total Approvals		$ 20,000,000	$ 24,816,000	$ -	$ 2,639,575	$ 2,189,915																	
Commitment Used - by Bd approval date		$ 20,000,000	$ 24,816,000	$ -																			
Unused Commitment - by BD approval date		$ -	$ 184,000	$ 30,000,000																			
110% Contingency Factor		$ -	$ 4,481,600	$ 4,297,600																			
Commitment Available			$ (4,297,600)	$ 25,702,400																			
	Pending Acquisitions			CalHFA Comm	RC Equity	Proposed Equity																	
27	10536 N. Foothill, Cupertino			$ 1,657,000			06044NBAHP			12/01/06	NA	BAHC -SARC	TBD	Tax-Exempt	FTM Duplex	$ 1,229,814	$ 75,000	$ 82,850	$ 190,642	$ 1,220,000	136%	120%	113%
28	10506 N. Foothill Cupertino			$ 1,657,000			06041NBAHP			12/01/06	NA	BAHC -SARC	TBD	Tax-Exempt	FTM Duplex	$ 1,303,645	$ 75,000	$ 82,850	$ 190,642	$ 1,220,000	136%	120%	113%
29	10516 N. Foothill, Cupertino			$ 1,657,000			06042NBAHP			12/01/06	NA	BAHC -SARC	TBD	Tax-Exempt	FTM Duplex	$ 1,298,816	$ 75,000	$ 74,500	$ 190,642	$ 1,220,000	136%	120%	114%
30	10526 N. Foothill Cupertino			$ 1,657,000			06043NBAHP			12/15/06	NA	BAHC -SARC	TBD	Tax-Exempt	FTM Duplex	$ 1,298,816	$ 75,000	$ 85,000	$ 190,642	$ 1,200,000	138%	122%	115%
31	205 Ginger, Morgan Hill			$ 1,490,000		$ 81,000	06038NBAHP			05/11/07	NA	BAHC -SARC	TBD	Tax-Exempt	SRH4	$ 939,900	$ 200,000	$ 74,500	$ 171,428	$ 939,000	159%	140%	132%
32	19175 Taylor, Morgan Hill			$ 1,700,000			06040NBAHP			05/11/07	NA	BAHC -SARC	TBD	Tax-Exempt	962 Med 5	$ 949,000	$ 200,000	$ 85,000	$ 195,589	$ 949,000	179%	159%	150%
33	2654 Chablis Way, Livermore			$ 1,810,000		$ 8,000	06016 N BAHP	Preliminary		09/25/06	TBD	HCEB-RCEB	xHOA	Taxable	962 Med 5	$ 870,000	$ 363,436	$ 90,500	$ 208,245	$ 870,000	208%	184%	174%
34	5486 Yale Drive			$ 1,450,000		$ 368,000	06035NBAHP	Preliminary		12/15/06		WBHC-GGRC	x	Tax-Exempt	SRH3	$ 798,000	$ 407,109	$ 72,500	$ 166,826	$ 798,000	182%	161%	152%
35	15470 La Alameda, Morgan Hill			$ 1,935,000		$ 70,000	06036NBAHP	Preliminary		01/09/07		BAHC -SARC	x	Tax-Exempt	962 Med 5	$ 887,500	$ 654,931	$ 96,750	$ 222,626	$ 887,500	218%	193%	182%
36	15134 Charmeran Ave, San Jose			$ 1,450,000		$ 210,000	06037NBAHP	Preliminary		01/18/07		BAHC -SARC	x	Tax-Exempt	SRH3	$ 829,900	$ 359,122	$ 72,500	$ 166,826	$ 829,900	175%	155%	146%
37	649 Empey Way,San Jose			$ 1,935,000		$ 330,000	06034NBAHP	Preliminary		12/15/06	03/15/07	BAHC -SARC	x	Tax-Exempt	962 Med 5	$ 790,000	TBD	$ 96,750	$ 222,626	$ 790,000	245%	217%	205%
38	1502 Constanso, San Jose			$ 1,450,000		$ 435,000	06045NBAHP	Preliminary		02/12/07		BAHC -SARC	x	Taxable	SRH3	$ 869,000	$ 400,000	$ 72,500	$ 166,826	$ 869,000	167%	148%	139%
39	275 W. Dunne Ave			$ 1,490,000		TBD	06047NBAHP	Preliminary			04/16/07	BAHC -SARC	XRP	Taxable	SRH 4			$ 74,500	$ 171,428				
40	826 Calero Avenue, San Jose			$ 1,935,000		TBD	06048NBAHP				04/26/07	BAHC-SARC	x	Tax-Exempt	962 Med 5	$ 985,000			$ 222,626				
41	5242 Bristol			$ 1,450,000		TBD	06050NBAHP				04/26/07	HCEB-RCEB		Taxable	SRH3				$ 166,826				
42	Westmont			$ 1,935,000		TBD					06/14/07	BAHC -SARC		TBD	962 Med 5				$ 222,626				
43	Stonehedge			$ 1,450,000		TBD					05/26/07	HCEB-RCEB		TBD	SRH3				$ 166,826				
44	Penitencia Creek			$ 1,450,000		TBD					05/31/07	BAHC -SARC		Tax-Exempt	SRH3				$ 166,826				
45	441 N. Milton, Campbell			$ 1,935,000		TBD					05/27/07	HCEB-RCEB		TBD	962 Med 5				$ 222,626				
46	960 Elm Street, San Jose			$ 1,935,000		TBD					05/31/07	BAHC -SARC		TBD	962 Med 5				$ 222,626				
	All Current Approvals and Pending Acquisitions																						
	Pending Approvals		$ -	$ 33,428,000		$ 3,691,915																	
	110% Contingency Factor		$ -	$ 36,770,800																			
	Total of Commitments and Pending Acquisitions																						
	Total approvals		$ 44,816,000	$ 44,816,000																			
	Total Approvals & Pending Acquisitions		$ 44,816,000	$ 78,244,000																			
	110% Contingency Factor			$ 84,244,000																			
	Available Commitement			$ (9,244,000)																			

CalHFA Taxable Rate			
Aug-06	7.80%	Apr-07	7.25%
Sep-06	7.50%		
Oct-06	7.40%		
Nov-06	7.45%		
Mar-07	7.30%		
CalHFA Tax -Exempt Rate			
Aug-06	6.30%	Apr-07	5.90%
Sep-06	6.00%		
Oct-06	5.90%		
Nov-06	5.95%		
Mar-07	5.90%		

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RESOLUTION 07-14

RESOLUTION AUTHORIZING A SERIES OF FINAL LOAN COMMITMENTS AND ONE OR MORE PRELIMINARY LOAN COMMITMENTS

WHEREAS, the California Department of Developmental Services ("DDS") has developed a plan to close the Agnews Developmental Center, and move its developmentally disabled residents into community housing settings located in nine Bay Area counties, and

WHEREAS, the State of California has enacted AB 2100, providing that DDS may approve a plan whereby, among other things, regional centers may provide for the development of community housing for the residents of the Agnews Developmental Center; and

WHEREAS, the Golden Gate Regional Center, the Regional Center of the East Bay, and the San Andreas Regional Center (collectively, the "Regional Centers") and DDS, have developed such a plan, known as the Bay Area Housing Plan ("BAHP"); and

WHEREAS, the BAHP contemplates that the Hallmark Group ("Hallmark") will be the initial developer of the housing provided for in such plan; and

WHEREAS, Hallmark created a subsidiary, Hallmark Community Services, a California nonprofit public benefit corporation ("HCS"), to act as the developer for the BAHP; and

WHEREAS, the California Housing Finance Agency (the "Agency") has worked with the State of California, including DDS, the California Department of Health Services, the Regional Centers, Hallmark and HCS to develop a financing plan for the BAHP (the "Financing Plan"), and

WHEREAS, the Financing Plan contemplates that a series of permanent loan commitments will be made to HCS by the BAHP, to permit HCS to obtain acquisition and construction financing for each of the individual homes being acquired by HCS; and

WHEREAS, on September 8, 2005, the Board approved a series of final loan commitments for a portion of the Financing Plan up to an aggregate amount of $20,000,000 together with preliminary commitments for later portions of the Financing Plan up to an additional aggregate amount of $80,000,000, subject to certain recommended terms and conditions; and

WHEREAS, on January 12, 2006 the Board determined that (i) the original amount of $80,000,000 of preliminary commitments approved by the Board on September 8, 2005 be increased to a total of $100,000,000; and (ii) up to $25,000,000 of such preliminary commitments be converted to final commitments up to an aggregate amount of $45,000,000, subject to certain recommended terms and conditions; and

WHEREAS, the Agency entered into the BAHP loan documents on April 1, 2006 to implement the Financing Plan; and

WHEREAS, on November 9, 2006, the Board determined that up to an additional amount of $25,000,000 of the $120,000,000 of preliminary commitments approved by the Board on September 8, 2005 and January 12, 2006, be converted to final commitments up to an aggregate amount of $70,000,000, 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 housing developed under the BAHP with proceeds of a subsequent borrowing; and

WHEREAS, the Board confirms that the Executive Director is delegated the authority to declare the official intent of the Agency to reimburse such prior expenditures for housing developed under the BAHP; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that up to $35,000,000 of the $120,000,000 of preliminary commitments approved by the Board on September 8, 2005, January 12, 2006 and November 9, 2006, be converted to final commitments up to an aggregate amount of $105,000,000 to implement of the Financing Plan, subject to recommended terms and conditions; and

WHEREAS, pursuant to this resolution, there will be a total of $120,000,000 of BAHP loan commitments either finally and preliminarily approved, consisting of (i) $70,000,000 of final commitments approved by the Board at the September 8, 2005, January 12, 2006 and November 9, 2006 meetings; (ii) $35,000,000 of final commitments approved by this resolution; and (iii) $15,000,000 of preliminary commitments remaining subject to further Board approval;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Housing Finance Agency as follows:

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 an additional series of final commitments in relation to the BAHP described above, in a form acceptable to the Agency, and subject to recommended terms and conditions set forth in the Staff Report, up to an aggregate amount of $105,000,000 above

and beyond the $70,000,000 of final commitments approved by the Board on September 8, 2005, January 12, 2006 and November 9, 2006.

2. The Executive Director may modify the terms and conditions of the final loan commitments provided for above, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any final loan commitments made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 07-14 adopted at a duly constituted meeting of the Board of the Agency held on May 10, 2007, at Burbank, California.

ATTEST: ______________________
Secretary

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State of California

MEMORANDUM

To: **CalHFA Board of Directors** **Date:** April 24, 2007

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

Subject: **CalHFA Five-Year Business Plan -- Resolution 07-15**

I offer, for your consideration, the 15th annual CalHFA Five-Year Business Plan (FY 2007/08 to FY 2011/12) and a resolution for its adoption.

This Five-Year Business Plan provides the Board of Directors and senior management team of the California Housing Finance Agency (CalHFA) with business production goals and a plan to implement several strategic initiatives that will fundamentally change the way the Agency does business. The recommended production levels in the housing finance and loan insurance programs were formulated by the senior management team to meet the following goals:

- Increase homeownership opportunities and multifamily affordable housing stock;
- Prudently leverage CalHFA's limited resources, and;
- Stimulate the housing-related economy of California.

The investment in strategic initiatives is recommended by the senior executive management to enable the Agency to:

- Provide better service to borrowers;
- Have more useful and timely information about its activities;
- Make better business decisions so that the Agency will more effectively meet its goals;
- More effectively protect the Agency's employees, manage the Agency's information assets and protect the privacy of our borrowers and employees; and
- Be better prepared to recover from and reinstate financing activities in the event of a variety of emergency situations that would interrupt the Agency's business activities.

The lending activity and strategic initiatives represented by the Business Plan allow the Board to address some of the important affordable housing needs of California. Adoption of this Business Plan by the Board provides guidance to the Agency's senior management team and sets forth benchmarks against which to measure the success of programs and the effective use of operating resources.

The Business Plan proposes total lending volume of $12.8 billion during the five-year period. This includes more than $7.8 billion of new home mortgages, $3.6 billion of mortgage insurance activity, and $1.4 billion in multifamily lending, including the continuation of the Bay Area Housing Plan and the implementation of Mental Health Services Act Housing Program. The new construction stimulated by Agency lending activities over the Business Plan period will aid the State's economic growth and help support the creation of between 75,000 and 100,000 new jobs.

Of course, the staff will continue to monitor the housing, mortgage insurance and financing markets, evaluate any potential opportunities and bring them to the Board for consideration.

Please join me in recognizing the incredible job that the CalHFA staff - Homeownership, Mortgage Insurance, Multifamily, Financing, Marketing, Legal, Asset Management, Administration, Information Technology, Fiscal Services, Special Lending and Loan Servicing - has accomplished this past year.

Your approval of Resolution 07-15, adopting the 15th CalHFA Business Plan is requested.

Five-Year Business Plan
Fiscal Years
2007/2008 to 2011/2012

CalHFA
California Housing Finance Agency

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I. EXECUTIVE SUMMARY

FY 2007/08 Business Plan Overview

CalHFA's Fiscal Year 2007/08 Business Plan proposes total business volume of $12.8 billion during the five-year period. Homeownership, multifamily and special lending programs are estimated to be $9.2 billion with loan insurance activity contributing an additional $3.6 billion. The previous five-year plan proposed a total of $14 billion.

In addition, the Agency will invest significant resources during the Business Plan period in several strategic initiatives that will make Agency business functions more efficient and provide Agency senior executives with more valuable and timely management and financial information. These initiatives will make it possible to provide better service to our borrowers and better business decisions for the Agency.

During the current fiscal year, liquidity amounting to nearly $100 million was generated from the sale of $60 million of deferred payment subordinate loans to Fannie Mae and from the successful sale of five multifamily properties acquired by the Agency as a result of foreclosures over the past twenty years. These resources are programmed into the Business Plan and will provide funding sources for Homeownership down payment assistance programs (CHAP and HiCAP) as well as Asset Management Portfolio Preservation and other Special Lending Programs.

Lending Activities

Homeownership. Estimated levels of first mortgage lending for homeownership are planned to be $1.5 billion for FY 2007/08 and remain constant during the remainder of the five-year plan. Homeownership lending volumes are significantly tied to tax-exempt bond issuance authority available from state allocation of private activity bond cap and bond refunding authority. With the remaining Proposition 46 funds, the new funding provided by Proposition 1C, and the liquidity provided by the sale of subordinate loans during the current fiscal year, the total commitment for down payment assistance programs is planned to be $80 million for FY 2007/08. Down payment assistance levels for future periods are dependant on successful recycling of principal prepayments and new sources of funding.

The new five-year target for homeownership is $7.8 billion, which includes a program for self-help builders' assistance. Sufficient tax-exempt issuance authority is available for issuance of bonds to attain the $1.5 billion goal in the coming fiscal year. Use of a variety of financing structures including variable rate bonds and interest rate swaps should result in attractive interest rates for the varied first mortgage loan programs. Over the life of the five-year plan, however, additional annual mortgage revenue bond (MRB) allocation for our first mortgage program will be required.

Mortgage Insurance. Total mortgage insurance activity is proposed at $675 million for FY 2007/08 and $3.6 billion for the five-year period. This compares to the FY 2006/07 goal of $841 million and prior five-year plan activity of $4.2 billion. Insurance activity outside of CalHFA is relatively limited, therefore linking the mortgage insurance volume to CalHFA first mortgage business and the type of products CalHFA offers. With the relatively low current

FHA loan limits, approximately one-half of CalHFA annual homeownership first mortgage production will be insured by the Mortgage Insurance Division.

Multifamily Programs. The FY 2007/08 goal for multifamily lending is $210 million, with a total target of $1,060 million for the five-year period. Projected permanent loan activity and construction lending are expected to remain constant throughout the business plan period. Lending activity in support of the Bay Area Housing Plan will continue during FY 2007/08 with $15 million in new activity expected. The Mental Health Services Act (MHSA) Housing Program and programs for housing for the homeless will begin in earnest during the Business Plan and are anticipated to produce $85 million of loan activity during FY 2007/08 and nearly $495 million over the life of the Plan. With an aging portfolio of multifamily properties, increased emphasis will be placed on programs that offer assistance to address deferred maintenance and capital improvements.

Special Lending Programs. The FY 2007/08 goal for special lending is $60 million, with a total target of $285 million for the five-year period. This plan proposes to continue partnering with localities by committing $15 million in each year of the plan to the HELP program. In addition, the Residential Development Loan Program is expected to produce $200 million of lending activity over the five-year plan. $10 million of activity under the Habitat for Humanity program is anticipated for the first two annual periods.

Economic Impact. By leveraging multiple lending sources, the Business Plan is expected to directly generate more than $2 billion in new single family and multifamily construction activity during the five-year plan period. Financing of resale homes, multifamily rental property acquisition and rehabilitation of multifamily properties and the Agency's mortgage insurance activities will also generate significant economic activity. Special lending programs that leverage the financial resources of local government agencies will also provide economic benefit by facilitating the construction of single family and multifamily housing units through local government programs. This activity will support the creation of new jobs and will generate significant other economic activity including the sale of construction materials, tools and supplies; borrower's acquisition of furnishings, window coverings and landscaping; and support many jobs in related real estate and financial services industries. Based on the anticipated volume of activity over the Five-Year Business Plan period it is reasonable to expect that an estimated 75,000 – 100,000[1] jobs will be created or otherwise supported.

Strategic Initiatives

The Agency's need to operate competitively within the mortgage banking and commercial lending industries creates the need for business systems that will provide borrowers with faster service and provide Agency staff with better information that will allow for more effective management of Agency resources. As the largest state housing finance agency in the nation with over $9 billion in assets, CalHFA owes a duty to the Board, our investors, our borrowers and California citizens to use best practices in its management of investor capital and other Agency resources.

Over the past several years, the Agency has initiated several strategic initiatives that, when completed, will change the way the Agency does business. Agency security will be improved, old business systems will be upgraded and automated and new systems will

[1] Source: Construction Industry Research Board

improve coordination between divisions to provide better customer service. Finally, these new systems will provide managers with more and better financial and management information that will allow them to make better business decisions.

These projects represent a substantial commitment of staff time and Agency dollars. During this fiscal year, best project management practices have been initiated to more effectively manage all projects. All strategic projects have been brought under the management of the Strategic Projects Governance Committee, which is chaired by the Chief Deputy Director, who reports directly to the Executive Director. Each individual project is managed by an executive sponsor and project manager through a steering committee/project team structure. The goal is to manage all of these efforts with minimal impact on ongoing business operations.

II. INTRODUCTION

A. Plan Purpose:

This Five-Year Business Plan provides the Board of Directors and senior management team of the California Housing Finance Agency (CalHFA) with business production goals and a plan to implement several strategic initiatives that will fundamentally change the way the Agency does business. The recommended production levels in the housing finance and loan insurance programs were formulated by the senior management team to meet the following goals:

- Increase homeownership opportunities and multifamily affordable housing stock;
- Prudently leverage CalHFA's limited resources, and;
- Stimulate the housing-related economy of California.

The investment in strategic initiatives is recommended by the senior executive management to enable the Agency to:

- Provide better service to borrowers;
- Have more useful and timely information about its activities;
- Make better business decisions so that the Agency will more effectively meet its goals;
- More effectively protect the Agency's employees, manage the Agency's information assets and protect the privacy of our borrowers and employees; and
- Be better prepared to recover from and reinstate financing activities in the event of a variety of emergency situations that would interrupt the Agency's business activities.

The lending activity and the strategic initiatives represented by the Business Plan allow the Board to address some of the important affordable housing needs of California. Adoption of this Business Plan by the Board provides guidance to the Agency's senior management team and sets forth benchmarks against which to measure the success of programs and the effective use of operating resources.

B. Background:

CalHFA was created in 1975 as the state's affordable housing bank to meet the housing needs of persons and families of low to moderate income. The Agency is authorized to meet these needs by making homeownership loans, providing mortgage insurance, lending funds to non-profit and for-profit developers to build affordable multifamily rental units and other special lending programs that provide liquidity to local government lending programs and organizations such as Habitat for Humanity. The Agency is self-sustaining and does not rely on State general fund or special fund dollars to fund operational expenses.

Financing activities are capitalized mainly through the sale of taxable and tax-exempt bonds on the strength of the Agency's $1.3 billion fund equity, the quality and experience of its Board of Directors and senior executive team and its track record of sophisticated and effective management strategies. With these strengths, the Agency maintains a high-quality investment grade credit rating of Aa3/AA-. The federal and state income tax exemption available on Agency-issued debt lowers the cost of capital and enables the Agency to offer below-market interest rates to our borrowers Liquidity for down payment assistance programs, supplemental financing on multifamily properties and special lending programs is also provided through the prudent management of Agency operations and within the interest rate spreads authorized by the federal tax law that governs tax-exempt bond financing. During the past year, over $100 million in additional liquidity was added through agency operations, the sale of REOs and the sale of subordinate homeownership loans.

C. Current Fiscal Year Business Plan - Progress to Date as of March 2007:

The table below provides an estimate of actual production for CalHFA lending and insurance programs in comparison with FY 2006/07 goals.

	FY 2006/07 GOAL	ESTIMATED ACTUAL	PERCENTAGE OF GOAL
		(Millions of dollars)	
Homeownership	$1,585	$1,831	116%
Mortgage Insurance	$ 841	$1,000	119%
Multifamily Programs	$ 344	$ 101	29%
Special Lending Programs	$ 41	$ 38	93%

Homeownership. Strong demand for CalHFA's homeownership lending products is projected to generate volume in excess of $1.8 billion during the current fiscal year. Anticipated first mortgage lending activity of more than $1.7 billion, the greatest one year volume in the Agency's history, is significantly higher than the fiscal year's goal of $1.5 billion. The addition of alternative loan products (the interest only PLUS and 40-year fully amortizing loan) combined with higher interest rates and high home prices have made the Agency's loan products a very attractive alternative to first-time homebuyers. The Agency's ability to reutilize tax-exempt bond issuance authority from the extreme amounts of loan prepayments received over the past five years has allowed the financing of higher volumes of homeownership loans. Production volumes over the next five years will be limited to prudent levels based on expected tax-exempt bond issuance authority available for this purpose.

Mortgage Insurance. Insurance activity is projected to be $1 billion in FY 2006/07. This is 120% of the $835 million achieved in FY 2005/06 and is due to the increase in homeownership conventional loan volume. The Agency has experienced a significant shift away from FHA insured loans to conventionally insured loans over the past several years. For many years 85% or more of homeownership first mortgage loans were FHA insured but during the current year Agency staff expect that fewer than 20% of loans will be insured by the FHA. This trend, caused by the high prices of homes in California, is expected to continue unless federal legislation is enacted increasing FHA loan limits.

Multifamily. Lending commitments are projected to total $126 million for FY 2006/07 compared to FY 2005/06's production of $239 million. This decline in production is the result of many factors, including a downturn in the affordable rental housing market and the Agency's need to obtain salary realignment to attract a qualified senior executive to manage the Multifamily Programs Division. Over the years CalHFA has demonstrated the economic benefits of financing multifamily rental housing in California to other lenders, including commercial banks and local issuers, many that currently have very active programs. The Agency is aggressively reviewing many aspects of its multifamily lending programs to create more competitive and viable programs in the future. In addition, the current slowdown in new lending opportunities has provided the occasion to develop the Bay Area Housing Program to finance group homes for the severally disabled, create the MHSA housing program to house mentally ill homeless populations and to develop a state-of-the-art loan origination system that will provide a centralized repository of data and an enhanced underwriting platform.

Special Lending. Volume is expected to be $38 million in FY 2006/07. During the current fiscal year, the Residential Development Loan Program and Habitat for Humanity Program were successfully introduced. The HELP loan program continued to have strong demand from localities and all available funding was committed.

III. PRESENTATION OF THE FIVE-YEAR BUSINESS PLAN

A. Assumptions Underlying Plan Goals:

The levels of activity projected for each program are based on assumptions regarding key factors over which CalHFA, in many cases, does not exercise control. The following are some of the key assumptions on which the projections are based:

- Receipt of sufficient state allocation of private activity bond issuance authority.
- No repeal of the Federal Ten Year Rule.
- Continued investor demand for tax-exempt and federally taxable bonds issued by CalHFA.
- Approximately 50% of loans purchased by Homeownership continue to be conventional loans requiring CalHFA mortgage insurance.
- Timely and successful new partnerships and programs.
- Ongoing demand from first-time homebuyers and rental housing sponsors.
- Borrower interest in newly created or redesigned single family loan products that may reduce the use of the CalHFA Housing Assistance Program (CHAP) and High Cost Area Home Purchase Assistance Program (HiCAP) subordinate loans.
- A reasonably stable interest rate market.
- Reasonably stable staffing including filling vacant senior manager positions and retaining existing management.
- State and local agency financial participation.
- Offer Housing Assistance Trust funds within available resources.
- Continued commitment of Government Sponsored Enterprises to first-time homebuyers and affordable housing.

The Agency's programs and its organization are flexible enough to allow CalHFA to respond to changing circumstances in revenue projections, programs, and economic conditions, and to accommodate any unanticipated adjustment of priorities.

Organization of Plan:

The following pages describe the details of CalHFA's Fiscal Year 2007/08 Five-Year Business Plan. The Plan is organized as follows:

- Table I - Planned and Actual Summary displays the goals and actual results for FY 2005/06 and the goals and projections for FY 2006/07.
- Table II - Plan Summary shows goals by program for each of the years in the plan period FY 2007/08 to FY 2011/12.
- Overview of Strategic Initiatives provides a discussion of the Strategic Initiatives CalHFA has currently undertaken.
- Divisional Summaries include lists of accomplishments and descriptions of how the plan will be carried out by the CalHFA divisions. These are followed by short descriptions of how each of the support divisions of CalHFA will assist the programs divisions in meeting the objectives of the plan.
- Financial Summary discusses in detail the Agency's equity position as of

September 30, 2006, the many restrictions on the Agency's reserves, management of the Agency's financial risks, and the projected fiscal effect of the plan over the five-year plan period.

TABLE I - PLANNED AND ACTUAL SUMMARY
(In millions)

	FY 2005/06 Planned	FY 2005/06 Actual
HOMEOWNERSHIP PROGRAMS[a]		
Homeownership 1st Loans	$1,200.0	$1,410.0
CalHFA Housing Assistance Program (CHAP)	13.3	7.0
High Cost Area Home Purchase Assist. Prog. (HiCAP)	32.4	30.0
Self-Help Builder Assistance Program (SHBAP)	2.5	0.7
Prop. 46 Down Payment Assistance		
CA Homebuyer's Down Pmt. Assist. Prog. (CHDAP)	31.7	31.4
Homeownership In Revital Areas (HIRAP)	2.8	2.6
Extra Credit Teacher Home Purchase Prog. (ECTP)	6.6	3.7
School Facility Fee Down Pay. Assist. Prog. (SFF)	4.7	3.2
Total Homeownership Programs	$1,294.0	$1,488.6
INSURANCE SERVICES		
CalHFA	$460.0	$832.5
CalPERS	1.0	0.0
CalSTRS	14.0	1.0
Lease Purchase	4.0	0.5
Community Affordable Housing	6.0	0.6
Total Insurance Programs	$485.0	$834.6
MULTIFAMILY PROGRAMS[c]		
Permanent Loans	$110.0	$80.1
Construction Loans	170.0	112.1
Preservation Acquisition & Preservation Opportunity	23.0	1.8
Bay Area Housing Plan	50.0	45.0
Subtotal - Multifamily	$353.0	$239.0
SPECIAL LENDING PROGRAMS:		
HAT - Special Needs, Rehabilitation	5.0	4.1
HELP Program	20.0	19.1
Small Business / Predevelopment Loans	4.0	0.3
Community Development Initiative		
Financial Institutions (CDFI)	10.0	0.0
Habitat for Humanity	5.0	3.0
Tax Increment Financing	10.0	0.0
Residential Development Loan Program	65.0	10.0
Residential Development Construction Loans	30.0	0.0
Residential Development Second Loans (Prop. 46)	10.0	0.0
Subtotal - Special Lending Programs	159.0	36.5
Total Multifamily Programs	$512.0	$275.5
TOTAL CalHFA PROGRAMS	$2,291.0	$2,598.7

	FY 2006/07 Planned	FY 2006/07 Actual to 3/31	FY 2006/07 Projected
HOMEOWNERSHIP PROGRAMS[a]			
Homeownership 1st Loans	$1,500.0	$1,298.2	$1,740.0
CalHFA Housing Assistance Program (CHAP)	6.5	4.9	6.6
High Cost Area Home Purchase Assist. Prog. (HiCAP)	28.5	19.8	26.5
Self-Help Builder Assistance Program (SHBAP)	2.5	0.0	1.0
Prop. 46 Down Payment Assistance			
CA Homebuyer's Down Pmt. Assist. Prog. (CHDAP)	34.5	34.4	45.9
Homeownership In Revital Areas (HIRAP)	2.4	1.6	2.1
Extra Credit Teacher Home Purchase Prog. (ECTP)	6.6	3.4	5.0
School Facility Fee Down Pay. Assist. Prog. (SFF)	4.3	2.9	3.9
Total Homeownership Programs	$1,585.3	$1,365.2	$1,831.0
INSURANCE SERVICES			
CalHFA	$840.0	$822.6	$998.4
CalPERS	1.0	0.0	0.0
CalSTRS	0.0	0.9	0.9
Lease Purchase	0.0	0.0	0.0
Community Affordable Housing	0.0	0.7	0.7
Total Insurance Programs	$841.0	$824.2	$1,000.0
MULTIFAMILY PROGRAMS[b]			
Permanent Loans	$70.0	$7.9	$23.7
Construction Loans	170.0	6.7	6.7
Preservation Acquisition & Preservation Opportunity	5.0	0.0	0.0
Bay Area Housing Plan	75.0	25.0	60.0
Homeless/Special Needs Program	10.0	0.0	5.0
Residual Gap Loan Program	10.0	5.8	5.8
Asset Management Portfolio Assistance	4.0	0.0	0.0
Subtotal - Multifamily	$344.0	$45.4	$101.2
SPECIAL LENDING PROGRAMS:			
HELP Program	15.0	15.0	15.0
Small Business / Predevelopment Loans	1.0	0.3	0.3
Community Development Initiative			
Habitat for Humanity	5.0	2.7	3.1
Residential Development Loan Program	20.0	5.3	20.0
Subtotal - Special Lending Programs	41.0	23.3	38.4
Total Multifamily Programs	$385.0	$68.7	$139.6
TOTAL CalHFA PROGRAMS	$2,811.3	$2,258.1	$2,970.6

(a) Homeownership loans purchased.
(b) Multifamily loans committed.

TABLE II - PLAN SUMMARY
(In millions)

	2007/08	2008/09	2009/10	2010/11	2011/12	5 Yr Total
HOMEOWNERSHIP PROGRAMS [a]						
Homeownership First Mortgages	$1,500.0	$1,500.0	$1,500 0	$1,500.0	$1,500.0	$7,500.0
Agency Funded Down Payment Assistance						
CalHFA Housing Assistance Program (CHAP) [b]	5.7	5 7	5.7	5 7	5.7	28.5
High Cost Area Home Purch. Assist. Prog. (HiCAP) [b]	25.0	25.0	25.0	25.0	25.0	125.0
Self-Help Builder Assistance (SHBAP) [b]	1.3	1.3	1.3	1.3	1.3	6.5
Prop. 46 Down Payment Assistance						
CA Homebuyer's Downpmt Assist. Prog.(CHDAP)	9.6	0.0	0.0	0.0	0.0	9.6
Homeownership In Revital. Areas Prog. (HIRAP)	1.5	0.5	0.0	0.0	0.0	2.0
Extra Credit Teacher Home Purchase Prog. (ECTP)	6.6	0.0	0.0	0.0	0.0	6.6
School Facility Fee Down Pay. Assist Prog. (SFF)	3.7	3.8	4.0	4.2	4.5	20.2
Prop. 1C Down Payment Assistance						
CA Homebuyer's Downpmt Assist. Prog.(CHDAP)	26.4	36.0	32.6	0.0	0.0	95.0
Total Homeownership Programs	$1,579.8	$1,572.3	$1,568.6	$1,536.2	$1,536.5	$7,793.4
INSURANCE SERVICES						
CalHFA	$675.0	$700.0	$725.0	$750.0	$775.0	$3,625.0
Non-CalHFA	0.0	0.0	0.0	0.0	0.0	0.0
Total Insurance Programs	$675.0	$700.0	$725.0	$750 0	$775.0	$3,625.0
MULTIFAMILY PROGRAMS [c]						
Permanent Loans	$30.0	$30.0	$30.0	$30.0	$30.0	$150.0
Construction Loans	60.0	60.0	60.0	60.0	60.0	300.0
Bay Area Housing Plan	15.0	0.0	0.0	0.0	0.0	15.0
Proposition 63 - MHSA Program						
Loan Program	50.0	53.0	61.8	70.4	73.6	308.8
Operating Subsidy	30.2	31.4	36.0	40.8	42.4	180.8
Homeless/Special Needs Program [b]	5.0	0.0	0.0	0.0	0.0	5.0
Residual Gap Loan Program [b]	10.0	10.0	10.0	10.0	10.0	50.0
Asset Management Portfolio Preservation [b]	10.0	10.0	10.0	10.0	10.0	50.0
Total Multifamily Programs	$210.2	$194.4	$207.8	$221.2	$226.0	$1,059.6
SPECIAL LENDING PROGRAMS [c]						
Locality Programs						
Housing Enabled through Local Partnerships (HELP) [b]	$15.0	$15.0	$15.0	$15.0	$15.0	$75.0
Residential Development Loan Program (RDLP)						
Prop 46	20.0	20.0	20.0	20.0	20.0	100.0
Prop 1C	20.0	20.0	20.0	20 0	20.0	100.0
Habitat for Humanity Loan Purchase Program [b][d]	5.0	5.0	0.0	0.0	0.0	10.0
Total Special Lending Programs	$60.0	$60.0	$55.0	$55.0	$55.0	$285.0
TOTAL CalHFA PROGRAMS	$2,525.0	$2,526.7	$2,556.4	$2,562 4	$2,592.5	$12,763.0

(a) Production total represent anticipated Homeownership loans purchased.
(b) Funded from Agency's Housing Assistance Trust
(c) Production totals represent anticipated Multifamily and Special Lending Programs final commitments.
(d) Program production levels will be revisited on an annual basis.

IV. OVERVIEW OF STRATEGIC INITIATIVES

A. Introduction:

As the State's affordable housing bank, the Agency competes in the general mortgage marketplace and must, on an ongoing basis, strategically evaluate the loan products offered to borrowers, its business finance and operational models and systems to provide the very best available financing alternatives that will help low and moderate income families and individuals meet their housing needs. The Agency must also constantly monitor significant trends in the market and assess the impacts of these trends on Agency strategies and operations. The following paragraphs describe strategic initiatives that have been developed during the current year and will be ongoing over the life of the Business Plan.

B. Mortgage Backed Securities Program:

During the current fiscal year the Agency has formulated plans to finance a mortgage-backed securities program in addition to the existing whole loan programs offered first-time homebuyers. While the MBS program has not yet been launched, it is expected to be announced this spring and will provide benefits to borrowers and the Agency by lowering borrowers mortgage payments, reducing real estate related risks and reducing capital requirements imposed by bond rating agencies.

C. Impact of Subprime Lending Market Crisis:

The recent collapse of the subprime lending market has generated daily headlines in the media and has initiated much discussion about the Agency's role in assisting borrowers and other potential impacts on our homeownership lending programs. While other state housing finance agencies have announced programs to assist subprime borrowers before their variable rate loans reset at much higher loan rates or are contemplating programs to rescue borrowers in danger of losing their homes to foreclosure, CalHFA has been following the situation closely and has been considering next steps while being mindful of the risks associated with such programs. While it is premature to discuss any Agency programs or other efforts designed to assist these borrowers, due to the magnitude of this market in California, it is almost a certainty to have an impact on our programs during the five years of this Plan. As lenders tighten credit standards by limiting loan-to-value ratios, limiting debt to income ratios, underwriting at the fully indexed mortgage payment, requiring more complete documentation of income and eliminating creative loan products, the Agency is likely to experience greater demand from the first-time homebuyer community, taxing the resources available to the Agency to provide below-market-rate loans.

D. Homeownership Loan Production Targets:

In determining homeownership first mortgage loan production volumes for purposes of the Business Plan, consideration was given to existing tax-exempt issuance authority, future receipt of state allocation of private activity bond cap, prudent levels of federally taxable bond issuance and recycling of existing authority resulting from borrower prepayments. The Agency will begin the business plan period with a supply of tax-exempt volume cap that was received from the California Debt Limit Allocation

Committee (CDLAC) as carry forward allocation over the past two years. Carry forward allocation does not expire or require that bonds be issued until three years from the date of the award providing great flexibility in planning the use and scheduling of tax-exempt bond issuance. While this carryforward allocation will assist the Agency in meeting demand during the early years of the Business Plan period, it must be noted that future years' allocations will be dependant on demand for allocation from other sectors and the policies and priorities of CDLAC. Earlier this year CDLAC reserved $310 million of volume cap for the Agency's homeownership mortgage revenue bond program during calendar year 2007.

The homeownership loan production presented in this Business Plan is based on the expectation that CalHFA will receive volume cap of approximately $450 million to $500 million each year during calendar years 2008 – 2012. To achieve the five-year plan target of $7.5 billion in first mortgage loan production, it is anticipated that $2.2 billion of federally taxable bonds will be issued and that loan prepayments will provide a source of reusable tax-exempt issuance authority amounting to $300 million annually.

The Agency will continue to explore financially attractive non tax-exempt programs to expand production volume without adversely affecting the interest rate offered to borrowers availing themselves of our homeownership loan products.

E. Operational Projects:

The Agency has embarked on several strategic projects that are vital to operations. These projects, once completed, will provide a safer and more productive work environment for Agency employees and improve service to our borrowers and better protect their privacy. A number of Agency business processes will be reorganized and automated. These new systems will make it possible to process loan documents faster, answer borrower questions and resolve problems more quickly. Agency staff will have better and more timely management and financial information which will allow the senior management team to make better and more timely business decisions. The completion of these projects will allow the Agency to adapt rapidly to new public purpose initiatives and the unique challenges of California. The projects will also foster and enable better collaboration and information sharing across Agency divisions and between teams and individuals.

Homeownership. The Homeownership project will analyze Homeownership's business processes and systems, develop an effective and efficient planned business model, and procure and implement a business solution that best meets the needs of Homeownership and the Agency as a whole. The Homeownership project will:

- Improve Homeownership business processes, create efficiencies and integrate single family loan processes across business functions.
- Improve services to our partners and customers.
- Enhance information quality and integrity.
- Diminish the reliance on paper-driven processes.

The Homeownership project began in September 2005, and was suspended in October 2006 until the completion of the Fannie Mae MBS project in Summer 2007. Homeownership will select a vendor early in FY 2007/08 to help with system development and business model implementation. Project completion is anticipated to be in early FY 2008/09.

Multifamily Programs. The Multifamily project, known as "Prolink," will implement a new Multifamily Loan Origination system that meets the business and technical requirements of the Agency and that enhances access to information for all stakeholders.

Some of the benefits of the Multifamily Programs project are:

- Provides a centralized repository of data for program management.
- Automates business processes.
- Provides the users with easier data access.
- Supplies integrated document management capabilities.

The Multifamily project began in June 2005 and is expected to be completed by the middle of FY 2007/08.

Fiscal Services. The Fiscal Services project will analyze Fiscal Services' business processes and systems, and design an effective business model for future operations. Our goal is to procure and implement a Fiscal Services solution that fulfills the Agency's business, technical and strategic requirements.

With the new Fiscal Services systems, the Agency will:

- Provide easy access to current financial status and details to effectively support Agency financial management.
- Implement Fiscal Services best practices to improve efficiency and effectiveness.
- Enable the measurement of performance based on established metrics and indicators.
- Decrease reliance on manual processes, workarounds and paper, allowing for more timely and accurate reporting.

Fiscal Services will select a vendor in early FY 2007/08. The length of the project will depend on the vendor's proposed recommendation and Agency resource availability.

Debt Management. The Agency will procure and implement a Debt Management system that will centralize debt instrument information and improve our ability to evaluate performance and support business decision making.

Procuring and implementing a Debt Management system will enable the Agency to:

- Centrally maintain debt management information and eliminate duplicate data.
- Manage outstanding liabilities and fulfill financial obligations to partners.
- Analyze debt activity to evaluate performance and support business decision-making.

The Debt Management Project is anticipated to begin May 2007, and be completed by the beginning of CY 2008. Depending on vendor responses to the Fiscal Services procurement, the Debt Management project may be absorbed by the Fiscal Services project.

Document Management Phase II. The Document Management Phase II project will analyze the diverse document management needs of the Agency's divisions and collaborate with the divisions to develop a thorough document management business model which supports the Agency as a whole.

The Document Management project will:
- Develop an organized and managed approach to enterprise document management.
- Reduce document redundancy and diminish reliance on paper.
- Reduce costs associated with hardcopy filing, retrieval and storage.
- Improve document and information security.

The Document Management Phase II project began in October 2006. The completion date is to be determined based on the availability of key resources.

Business Continuity Management Plan. The Agency is developing a plan to ensure the recovery of vital business processes in the event of a disaster or other catastrophic event.

By implementing a Business Continuity Management plan, the Agency will:
- Reduce the risk that the Agency will experience a long-term inability to perform core business functions.
- Safeguard the interests of key stakeholders and the Agency's reputation and brand.
- Ensure the Agency meet customers' needs in the event of a catastrophe.
- Meet an obligation, as a responsible state agency, to plan for the event of a catastrophe.

The Business Continuity Management strategic project began in February 2007 and is expected to be completed early in the FY 2007/08.

New Building. Currently, Agency staff and business functions in Sacramento are divided between the Senator Hotel and the Meridian Building. These buildings are several blocks apart resulting in inefficient business processes, security risks for employees and Agency information in the form of borrower files, mail and other Agency information. The New Building project effort aims to consolidate the Agency's Sacramento staff in a single office location. The Agency will consider the options of leasing existing space, building a new facility or acquiring and rehabilitating an existing building.

Some of the benefits of the New Building project are:

- Increase production and focus on business goals by locating related staff in close proximity.
- Improve employee workspace through better interior design.
- Increase employee amenities such as parking, gym and limited food service.
- Potentially achieving financial benefits from building ownership.

A building consulting firm has been retained by the Agency and the initial analysis of options has begun. During Fiscal Year 2007-08, staff will discuss with the Board a buy vs. lease approach. The Agency has an anticipated move-in date for the new CalHFA facility in FY 2009/10.

F. Strategic Projects Governance:

The Agency's strategic initiatives represent a very large investment of staff time and financial resources. To effectively manage this investment, the Agency has adopted a collaborative project management structure. Each project has been assigned an executive sponsor that has ownership of all aspects of the project and provides policy direction and technical oversight. The executive sponsor chairs a steering committee for the project which is made up of project stakeholders and staffed by the project manager. The project manager and project team for each project execute the day-to-day project activities.

All projects, however, are managed by the Strategic Projects Governance Committee – an organization made up of the executive sponsors of all of the projects and chaired by the Chief Deputy Director, who reports directly to the Executive Director of the Agency. The Committee provides overall policy guidance to executive sponsors and manages the allocation of Agency resources between projects. Projects scope, costs and schedule are constantly monitored by the Committee.

IV. DIVISIONAL SUMMARIES

A. HOMEOWNERSHIP PROGRAMS:

The role of Homeownership Programs is to increase homeownership opportunities to Californians by making financing available to low and moderate income first-time homebuyers.

Objectives. In FY 2007/08, CalHFA will continue to pursue activities designed to further the following mission objectives:

Providing first-time homebuyers with long-term below market rate mortgage financing; focusing on low-income homebuyers; assisting teachers, administrators, other eligible credentialed staff, and classified employees working in high priority schools to buy their first home; distributing loans equitably throughout the state; targeting loans to extremely high housing cost areas of the state; promoting loan products to expand the supply of affordable new construction housing; continuing a loan product to assist low-income disabled homebuyers, promoting efforts to identify affordable housing needs, exploring opportunities, developing solutions, assembling resources, and partnering to implement solutions.

Strategies. The planned strategies to accomplish the objectives, and in particular to maximize the public benefit to low-income borrowers, are listed below:

- Providing long-term, fixed-rate first mortgages at below conventional market interest rates with:
  - Continuation of the 100% LTV 30-year term loan.
  - Promotion of the 100% LTV 40-year term fully amortizing loan to reduce reliance on the *interest only* PLUS℠ loan.
  - Continuation of the 100% LTV 35-year term loan with an initial five year interest only payment feature (*interest only* PLUS℠).
- Providing the lowest rates for low-income borrowers.
- Supporting very-low and low-income homeownership through the provision of down payment assistance and reduced interest rates, such as the CalHFA Housing Assistance Program (CHAP), California Homebuyer's Downpayment Assistance Program (CHDAP), Homeownership In Revitalization Areas Program (HIRAP), School Facility Fee Down Payment Assistance Program (SFF), Self-Help Builder Assistance Program (SHBAP), High Cost Area Home Purchase Assistance Program (HiCAP) to assist homebuyers in extreme high cost areas of the state, providing down payment assistance for teachers, administrators, other eligible credentialed staff and classified employees through the Extra Credit Teacher Home Purchase Program (ECTP)), and by partnership in the Agency's Affordable Housing Partnership Program (AHPP) with local government housing agencies providing down payment assistance programs.
- Targeting high cost urban areas in need of affordable financing by providing down payment assistance for low and moderate income homebuyers through HiCAP.
- Continue to utilize a statewide network of lending institutions to provide consumer access to CalHFA loan products.
- Promotion of the Lead Generation Program with active loan officers to maintain loan

volume.

- Developing a standard subordinated debt format to facilitate additional private and nonprofit funding sources.
- Providing outreach, technical assistance, and training support to lenders and other industry organizations.
- Partnering with localities and nonprofit housing organizations to assist low-income borrowers.
- Partnering with Fannie Mae to utilize the mortgage backed security as a vehicle to deliver affordable financing to first-time homebuyers (FNMA MBS Program).
- Updating sales price limits biannually consistent with federal law in order to assist the maximum number of first-time homebuyers.
- Utilizing marketing and media resources to generate awareness for our programs and participating in special events.
- Evaluation of CalHFA's loan processes, from reservation through purchase, to identify improvements that need to be made to accommodate industry trends, available technology, market changes and borrower demand (Loan Origination Project).

Program Performance and Strategy Implementation. Following is a list of the major Homeownership programs, with the applicable fiscal year and five-year goals. A brief performance history against the current fiscal year goals for the listed programs is provided.

First Mortgage Lending

2006/07 Plan Goal: Projected:	$1.500 billion $1.740 billion
2007/08 Plan Goal:	$1.500 billion
Five-Year Goal:	$7.500 billion

The current fiscal year's Business Plan includes a first mortgage purchase goal of $1.5 billion, which is projected to be exceeded by year-end. As of March 31, 2007, the Agency has purchased loans totaling $1.298 billion in the current fiscal year, of which 76% were for resale homes and 24% for newly constructed homes.

The five-year goal was retained at $1.5 billion for each of the next five years. The $1.5 billion annual goal should be attainable in the coming fiscal year subject to market interest rates remaining stable. Additional private activity bond allocation will be necessary to fully fund the five-year $7.5 billion goal.

First mortgage loan products currently offered include a standard 30-year fixed rate conventional and governmental loans from 97% to 100% LTV, a 100% LTV 40-year fixed rate conventional loan, and a 100% LTV conventional loan with a five-year interest only period followed by a 30-year amortizing period, both at the same fixed interest rate, known as *interest only* PLUS^{SM}.

CalHFA Housing Assistance Program (CHAP)

2006/07 Plan Goal: Projected:	$ 6.5 million $ 6.6 million
2007/08 Plan Goal:	$ 5.7 million
Five-Year Goal:	$28.5 million

A $6.5 million goal was included in the current Five-Year Business Plan for the highly successful CHAP. With CHAP, the financing for home purchases is comprised of a FHA insured 30-year fixed rate first mortgage, and a 3% CHAP deferred payment second mortgage. The deferred second mortgage reduces borrower down payment requirements without increasing monthly loan payments. This product is used statewide and has been instrumental in assisting with the Agency's equitable distribution of loan fund objectives.

Given the limited availability of HAT funds, the Agency proposes to further restrict the CHAP program in the FY 2007/08 budget to $5.7 million in order to preserve resources. The recent addition of 100% LTV conventional loan products is anticipated to offset the impact the reduction in funding will have on the program and Homeownership loan volume.

As of March 31, 2007, there have been 677 CHAP second mortgages purchased in FY 2006/07 for a total of $4.9 million.

<u>High Cost Area Home Purchase Assistance Program (HiCAP)</u>

2006/07 Plan Goal: Projected:	$ 28.5 million $ 26.5 million
2007/08 Plan Goal:	$ 25.0 million
Five Year Goal:	$125.0 million

This program provides financing in the form of a deferred payment second mortgage for down payment assistance to create new opportunities for low to moderate income homebuyers to purchase housing in counties with extreme housing costs, very high job demand, affordability problem exists and where the Agency's Homeownership program has underserved the county.

As of March 31, 2007, the Agency has purchased 1,724 second mortgages for a total of $19.8 million, with an additional $6.7 million anticipated during FY 2006/07. CalHFA has also purchased 1,746 related first mortgage loans totaling $536.3 million.

Continuing HiCAP's purpose - to help assist first-time homebuyers in the high cost area of California - while keeping the program within HiCAP's budget, the program has incorporated the following changes: all eighteen CalHFA-defined high cost areas are now eligible for the HiCAP deferred payment second mortgage. Within these counties, except San Diego and Santa Clara, homeowners are eligible to receive up to $12,500. San Diego and Santa Clara counties have a limit of $7,500. These two counties have been over-served, yet the Agency remains committed to help provide additional assistance to these homebuyers. Furthermore, the Palmdale/Lancaster areas of Los Angeles County are not eligible, as traditionally they are not considered within the high cost definition. Further changes will be considered in order to best serve high-cost housing areas.

<u>Self-Help Builder Assistance Program (SHBAP)</u>

2006/07 Plan Goal: Projected:	$ 2.5 million $ 1.0 million
2007/08 Plan Goal:	$ 1.3 million
Five-Year Goal:	$ 6.5 million

The Agency will commit $1.3 million of HAT funds annually to the SHBAP program, which provides development loans to nonprofit self-help developers. This program provides loans for site acquisition, development and/or construction financing to nonprofit self-help housing sponsors, and permanent loans to borrowers. The maximum loan amount is $750,000 and may be increased up to $1 million for top tier nonprofits.

Families contribute their labor ("sweat equity") in lieu of a cash down payment under the mutual self-help approach.

Homeownership Propositions 46 and 1C Funds. Proposition 46 was approved by the California voters in November 2002. Prop. 46 provided $194.75 million for down payment and/or closing cost assistance for four programs to be administered by CalHFA's Homeownership division. Proposition 1C was approved by voters in November 2006, providing an additional $95 million of down payment assistance. The funds are financing the following programs; the original amounts are listed below:

California Homebuyer's Downpayment Assistance Program (Prop. 46)	$111.6 million
California Homebuyer's Downpayment Assistance Program (Prop. 1C)	$ 95.0 million
Homeownership In Revitalization Areas Program	$ 11.9 million
Extra Credit Teacher Home Purchase Program	$ 23.8 million
School Facility Fee Down Payment Assistance Program	$ 47.5 million

The descriptions of each of the Prop. 46 and Prop. 1C programs are provided below:

California Homebuyer's Down payment Assistance Program (CHDAP)

2006/07 Plan Goal-Prop 46:	$ 34.5 million
-With CalHFA Firsts	$ 28.3 million
-With Non-CalHFA Firsts	$ 6.2 million
Projected:	$ 45.9 million
2007/08 Plan Goal-Prop 46:	$ 9.6 million
2007/08 Plan Goal-Prop 1C:	$ 26.4 million
Five-Year Goal-Prop 46:	$ 9.6 million
Five-Year Goal-Prop 1C:	$ 95.0 million

The CHDAP program provides a deferred payment, 3% simple interest, junior mortgage of up to 3% of the purchase price or appraised value, whichever is less. Used for down payment and closing cost assistance, it may be used in conjunction with a CalHFA or non-CalHFA first mortgage.

The Prop. 46 funding of CHDAP is expected to last only through the middle of the first quarter of FY 2007/08. Prop. 1C funding of CHDAP will commence in the later months of the first quarter of FY 2007/08, once all Prop. 46 funds have been exhausted.

As of March 31, 2007, the Agency has purchased 3,799 CHDAP junior mortgages for a total of $34.4 million. CalHFA had also purchased 2,390 related first mortgage loans totaling $610.6 million.

A total of $111.6 million was made available for loans from Prop. 46 for CHDAP as of January 2003. A total of $95 million will be made available from Prop 1C.

Homeownership In Revitalization Areas (HIRAP)

2006/07 Plan Goal:	$ 2.4 million
Projected:	$ 2.1 million
2007/08 Plan Goal:	$ 1.5 million
Five-Year Goal:	$ 2.0 million

As a set-aside of CHDAP within Prop. 46, $11.9 million was made available for HIRAP. This program is for down payment and closing cost assistance to lower-income first-time homebuyers. CalHFA-approved nonprofit organizations must document that the low-income homebuyers are purchasing a residence in a community revitalization area targeted by the nonprofit organization, and have received counseling from the nonprofit organization.

As of March 31, 2007, the Agency has purchased 87 loans for $1.6 million, with an additional $0.5 million anticipated during the remainder of FY 2006/07. CalHFA also purchased 50 related first mortgage loans totaling $10.4 million as of March 31, 2007.

Extra Credit Teacher Home Purchase Program (ECTP)

2006/07 Plan Goal: Projected:	$ 6.6 million $ 5.0 million
2007/08 Plan Goal:	$ 6.6 million
Five-Year Goal:	$ 6.6 million

The ECTP, funded by Prop. 46, is intended to help high priority schools recruit and retain credentialed teachers, administrators, staff and classified employees. This program offers the combination of a CalHFA first mortgage at a reduced interest rate, along with a junior loan for down payment assistance. The junior loan amount is limited to the greater of $7,500 or 3% of the sales price in CalHFA-defined statewide, non-high cost counties, or the greater of $15,000 or 3% of the sales price in CalHFA-defined high cost counties.

As of March 31, 2007, the Agency has purchased 264 ECTP junior mortgages for a total of $3.4 million, with an additional $1.6 million anticipated during FY 2006/07.

School Facility Fee Down Payment Assistance Program (SFF)

2006/07 Plan Goal: Projected:	$ 4.3 million $ 3.9 million
2007/08 Plan Goal:	$ 3.7 million
Five-Year Goal:	$20.2 million

Funded by Prop.46, SFF offers conditional grants that can be used for down payment assistance or closing costs by eligible homebuyers. The grants are based on the amount of the School Facility Fee paid by the developer for each particular new construction unit.

A total of $47.5 million was made available for grants for down payment and closing cost assistance from Prop. 46. A remaining total of $20.2 million is included in the Five-Year Business Plan for grants, to be divided equally between the two SFF programs: 1) "Economically Distressed Area" and, 2) "First-Time Homebuyer, Moderate Income Limits." As of March 31, 2007, 738 grants have been disbursed for a total of $2.9 million with an additional $1 million anticipated during FY 2006/07.

B. MORTGAGE INSURANCE:

Objective. Provide below-market premium rate insurance coverage to allow originating lenders and the Agency to provide below market rate mortgage loans enabling California first-time homebuyers to purchase decent, safe and affordable housing by insuring new conventional CalHFA loans.

Strategies. Improve business processes to increase targeted production capacity:

- Provide excellent borrower and lender service by streamlining internal business processes through use of technology and enhanced infrastructure and facility to ensure that production can be handled efficiently.
- Increase outreach to customers to communicate the availability of programs in targeted markets and the low income segment.
- Upgrade customer access to the CalHFA portal via the web site and add tools to enhance ease of use.

Develop business opportunities for products to support production goals:

- Develop and introduce new mortgage programs that will lower cost to borrowers and increase the lending capacity of the Agency.

- With a focus on underserved markets, develop communication strategies to better inform customers and stakeholders of new business processes, new products, upgrades of business practices, and access to technology.

- Support Homeownership and Mortgage Insurance goals through increased participation in industry events, media outlets, and lender training to promote CalHFA loan products and HomeOpeners®[1], a Mortgage Protection Program for borrowers experiencing involuntary unemployment.

Program Performance and Strategy Implementation.

California Housing Finance Agency (CalHFA) Conventional Loans

2006/07 Plan Goal Projected:	$ 840 million $1,000 million
2007/08 Goal:	$ 675 million
Five-Year Goal:	$3,625 million

Changes in mortgage insurance coverage which occurred in 2006 continued to result in lower mortgage insurance premiums to our borrowers. At the same time, the *interest only* PLUS^{sm} program introduced in the spring of 2005 continued to be a huge success and was instrumental in the Agency's mortgage insurance fund meeting its FY 2006/07 production goal by March 2007.

[1] "HomeOpeners" is a registered trademark of Genworth Mortgage Holding, LLC.

The *interest only* PLUS^{sm} product represents about 60% of Agency conventional loan production. With the introduction of the 40-year fixed rate conventional loan in March 2006, the Agency had three active conventional loan programs to offer during FY 2006/07. This allowed the Agency to provide more options to first-time homebuyers.

C. MULTIFAMILY PROGRAMS:

The role of Multifamily Programs is to finance rental housing, for very low, low and moderate income, and special needs households.

Objective. The Division's primary objective is to create and preserve affordable rental housing throughout the state through direct and indirect lending activities.

Strategies. Multifamily Programs' focus is primarily on lending to affordable housing sponsors for new construction, acquisition/rehabilitation, and rehabilitation projects. The strategies undertaken to reach the programs' goals include:

- Expand marketing for the 30-year fully amortized permanent loan with a prepayment option after year 15.
- Provide competitive construction and bridge loans with the latter repaid through tax credit equity installments.
- Facilitate the preservation and rehabilitation of at-risk housing through interim financing to assist in the timely acquisition of assisted projects at risk of losing their long-term affordability.
- Collaborate with state and local housing, social service, and mental health agencies to finance affordable supportive housing for special needs populations, including the chronically homeless and those with mental disabilities.

Program Performance and Strategy Implementation. Following is a list of the major Multifamily programs with the applicable fiscal year and five-year goals. Also provided is a brief performance history against the current fiscal year goals for the listed programs.

Construction and Permanent Loans

2006/07 Plan Goal: Projected:	$240.0 million $ 30.4 million
2007/08 Plan Goal:	$ 90.0 million
Five-Year Goal:	$450.0 million

In FY 2006/07, the estimated goal of construction and permanent loans is $170 million and $70 million, respectively. The comparable figures for FY 2007/08 are $60 million and $30 million, respectively. Linked to CalHFA permanent loans, the construction loan program for tax-exempt bond projects provides low cost, variable rate funds to reduce construction period interest. In this fiscal year, most of the loans in this program also contain financing from the Department of Housing and Community Development's Multifamily Housing Program (MHP) and the Low Income Housing Tax Credit (4 percent program).

Bay Area Housing Plan

2006/07 Plan Goal: Projected:	$75 million $60 million
2007/08 Plan Goal:	$15 million
Five-Year Goal:	$15 million

The Bay Area Housing Plan provided preliminary approval for $120 million in funding for approximately 70 group homes in the San Francisco Bay area as replacement housing for the residents of the Agnews Facility for the severely developmentally disabled. The Agency will supply permanent financing for these homes based on guaranteed lease payments from the State of California to regional service providers. Bank of America is providing acquisition and rehabilitation financing. The project has achieved unprecedented collaboration among state and regional agencies, local nonprofit service providers, and private lenders.

Proposition 63 – Mental Health Services Act Housing Program (MHSA Housing Program)

2006/07 Plan Goal: Projected:	N. A. N. A.
2007/08 Plan Goal:	$ 80.2 million
Five-Year Goal:	$489.6 million

The Mental Health Services Act Housing Program was created under the Governor's Executive Order S-07-06. It created a partnership between CalHFA, the Department of Mental Health and the California Mental Health Directors Association, in consultation with the Department of Housing and Community Development and the State Treasurer as well as other stakeholders, to fund the creation of 10,000 housing units. The Program allocates up to $75 million in Mental Health Services Act funds each year for development, acquisition, construction and/or rehabilitation of permanent supportive housing for individuals with mental illness and their families, including homeless individuals and their families. An additional $40 million is available annually for operating subsidies.

Preservation Acquisition and Preservation Opportunity Program

2006/07 Plan Goal: Projected:	$5.0 million $0.0 million
2007/08 Plan Goal:	N. A.
Five-Year Goal:	N. A.

Prop. 46 authorized the Preservation Opportunity Program, a revolving fund for the acquisition and preservation of affordable housing projects at risk of losing their affordability restrictions. These bond funds are intended to finance approximately 30% of the project's acquisition costs, with CalHFA lending the balance. Loans made from the two sources are intended to be repaid with permanent financing and be recycled for new acquisitions. FY 2005/06 and FY 2006/07 saw limited activity in this program due to the low level of preservation financing in general and the limited availability of attractively priced financing.

There is no projected activity for the coming fiscal year.

Homeless and Special Needs Loan Programs

2006/07 Plan Goal: Projected:	$10.0 million $ 5.0 million
2007/08 Plan Goal:	$ 5.0 million
Five-Year Goal:	$ 5.0 million

Special Needs financing in FY 2006/07 has been and will be carried out through direct lending and loans to nonprofit intermediary lenders who finance predevelopment and acquisition costs for permanent supportive housing. CalHFA expects that a $5 million capital contribution will be made to one or more nonprofit intermediaries in FY 2007/08. The program will be established as a revolving fund. The nonprofit intermediary lenders use CalHFA's low cost funds to re-lend funds to local nonprofit housing developers constructing affordable supportive housing. The source of funds for this program is the Housing Assistance Trust.

The Special Needs component of multifamily direct lending also provides construction, bridge and permanent financing for projects with populations that are at-risk and in need of supportive services, including the chronic homeless and those with disabilities. The program utilizes Housing Assistance Trust funds to subsidize the interest rate to between 1% and 3%. Generally, the tenants have income levels at 35% of area median income, necessitating the subsidized interest rate to make the projects economically viable. Because of the need for supportive services financing and the complexity of structuring the transactions, special needs housing projects have lengthy development time frames.

Residual Gap Loan Program

2006/07 Plan Goal: Projected:	$10.0 million $ 5.8 million
2007/08 Plan Goal:	$10.0 million
Five-Year Goal:	$50.0 million

The Residual Gap Loan Program provides low-cost Agency funds to cover the financing gap associated with the high cost of constructing affordable rental projects. This program is for tax-credit projects that use both CalHFA construction and CalHFA permanent financing.

Asset Management Portfolio Assistance

2006/07 Plan Goal: Projected:	$ 4.0 million $ 0.0 million
2007/08 Plan Goal:	$10.0 million
Five-Year Goal:	$50.0 million

Asset Management Portfolio Assistance, managed by CalHFA's Asset Management Division, will be used for rehabilitation of 80/20 (non-Section 8) properties in the Agency's portfolio. Funds are used on projects where Physical Needs Assessments indicate that existing repair and replacement reserves are not sufficient. The source of funding for this activity is CalHFA's Housing Assistance Trust.

D. SPECIAL LENDING PROGRAMS:

Special Lending Programs is a component of the Multifamily Programs Division. The role of Special Lending Programs is to administer unique lending activities which benefit low and moderate income families.

Objective. Special Lending Programs' objective is to develop innovative financing for affordable housing with housing sponsors in markets which are not addressed through conventional CalHFA financing.

Strategies. Focus primarily on products that facilitate affordable housing through partnerships with other housing sponsors. Strategies include:

- Provide moderate term loans to local governments for their affordable housing efforts.
- Provide a short-term site acquisition/predevelopment/construction loan program to local governments to facilitate affordable infill for-sale housing.
- Provide capitalization to California affiliates of Habitat for Humanity for additional affordable housing developments by purchasing and servicing qualified loans.

Program Performance and Strategy Implementation. Following is a list of the major Special Lending Programs with the applicable fiscal year and five-year goals. Also provided is a brief performance history against the current fiscal year goals for the listed programs.

Housing Enabled by Local Partnerships (HELP)

2006/07 Plan Goal: Projected:	$15 million $15 million
2007/08 Plan Goal:	$15 million
Five-Year Goal:	$75 million

Introduced nine years ago, the successful HELP program provides loans to local government entities to carry out their affordable housing priorities. During this year, loans were made at 3.5% interest for a 10-year term, with the maximum loan being $1.5 million. HELP represents both an investment in additional homeownership and rental housing throughout California as well as an investment in new and productive working relationships with local governments, housing authorities, and redevelopment agencies.

CalHFA has committed $7.5 million to eight localities in the first half of this fiscal year, bringing the nine-year commitment totals to $175 million allocated to 105 different localities. During the second half of this fiscal year, another $7.5 million of HELP funding will be announced, with actual locality selections and commitments to occur during June.

Residential Development Loan Program for Localities

2006/07 Plan Goal: Projected:	$ 30 million $ 20 million
2007/08 Plan Goal:	$ 40 million
Five-Year Goal:	$200 million

With up to a maximum of $75 million in underutilized monies from Prop. 46, initially designated for mortgage insurance, and an additional $100 million from the recently passed Proposition 1C bonds, the Residential Development Lending Program (RDLP) provides 3% interest loans to local government entities for the acquisition and predevelopment costs of developing ownership housing in urban infill areas. The program, which was launched in the current fiscal year and modified in the second half of the year to include construction funding, an increased maximum loan of $5 million and a longer 5-year loan term, couples its assistance with CalHFA's down payment assistance programs. The funds will leverage local public funds and conventional private financing used in the construction of ownership housing by local housing developers. $7.75 million was committed to local government entities at the end of 2005/06, and an additional $5.4 million was committed in January of this year. An additional $20 million round of funding was announced on March 16 of this year, with commitments that arise from this funding to be committed in early fiscal year 2007/2008. Future loan repayments will be used to capitalize a continuously-funded loan program.

Small Business Loan Program

2006/07 Plan Goal: Projected:	$1.0 million $0.3 million
2007/08 Plan Goal:	N. A.
Five-Year Goal:	N. A.

The Small Business Loan Program was designed to lend funds to small developers for up to one-half of predevelopment expenses or $300,000, whichever is less. The program was intended to help fill a gap in carrying out the necessary due diligence and preliminary architectural and engineering costs necessary to initiate projects. Loans were made at a 3.0% interest rate, with Housing Assistance Trust being the funding source.

The Agency, after considering the low volume and the dedication of resources, has decided to place the program on hold. A review of the program will occur when adequate demand for the program occurs, perhaps as a result of changing real estate conditions.

Habitat for Humanity Loan Purchase Program

2006/07 Plan Goal: Projected:	$ 5.0 million $ 3.1 million
2007/08 Plan Goal:	$ 5.0 million
Five-Year Goal:	*

* Business Plan allocations for future years will determined on a year-by-year basis.

CalHFA launched its Habitat for Humanity Loan Purchase Program in 2006, issuing commitments to purchase $3.1 million of qualified loans previously originated by Habitat organizations. Under these commitments, 37 loans will be purchased from 6 Habitat for Humanity affiliates. In the second half of this fiscal year, additional commitments totaling approximately $2.7 million were issued for the purchase of 36 loans from 6 affiliates. The Program funds are invested to yield an approximate 4% rate to CalHFA. A sustainable program demand of $5 million per year is expected in future funding rounds. The program provides for CalHFA servicing and flexibility in re-purchase options. Its purpose is to infuse capital for the growth of Habitat housing production. The source of funds for this program is the Housing Assistance Trust.

E. SUPPORT DIVISIONS:

1. ADMINISTRATION

Objectives.

- Restructure all Divisions with appropriate classifications and levels of staffing.
- Using best practices as a guide, continue updating and refining internal controls and internal procedural manuals and handbooks.
- Continue to refine options for the new headquarters building in Sacramento.
- Provide upgrades to our facilities to insure the physical security of employees and the privacy of consumer information at all office locations.

Strategies.

- Work within state government to update and upgrade positions.
- Continue to advertise for, interview, and select quality hires.
- Continue to work with development consultant and a broker to fully vet all options for the Agency's eventual move.
- Work with consultants to implement restricted access and automated security systems in sensitive locations.

Implementation Considerations. The Administrative Division supports the operational needs of the Agency through human resources, business services and facility management. Staff has spent a considerable amount of time working on many Agency strategic initiatives and will continue to support all of these necessary endeavors while continuing to hire and support high quality staff.

2. INFORMATION TECHNOLOGY (IT)

Objectives.

- Continue to provide professional, responsive IT services to daily Agency operations and ensure the legacy application systems and infrastructure continue to adequately support the Agency business processes.
- Contribute to the collaborative management of the Agency's strategic initiatives to define, develop and implement appropriate technological applications and infrastructure; enhance the business processes of Homeownership loan origination; Multifamily loan origination; Financing bond and investment tracking; and Fiscal Services cash receipts and disbursements, mortgage reconciliation and general ledger accounting.
- Initiate and/or complete the implementation of various support systems, information security, workload management, and change management.
- Extend the use, enhance the capabilities to improve communications and operations.
- Support the Agency's efforts to develop and deploy an Enterprise Document Management Model and a Business Continuity Management program.

Strategies.

- Manage the Agency's IT operations to ensure IT and business strategic alignment and effective IT priority setting and resource allocation.
- Maintain an IT hardware and software infrastructure that is secure and responsive to current business operations and future IT initiatives.
- Research technologies available in the marketplace and those being used most effectively by the housing finance industry and make recommendations on their potential for the Agency.
- Ensure the IT Division has the necessary organizational infrastructure, including staff skill sets, support tools, policies and practices, disaster recovery strategies, and measurement and management tools to support current operations and respond to planned IT initiatives.
- Aggressively pursue the use of technologies – such as web-based applications – that support the Agency's strategic business initiatives.

Implementation Considerations. The Division of Information Technology has had an outstanding record of maintaining the existing applications and technology infrastructure in support of the business operations of the Agency. However, many of the current applications and supporting infrastructure are at capacity and very dated; IT has initiated activities to update them. By updating technology, the Agency has the opportunity to transform operations and improve responsiveness to changing business needs and business partner and consumer requirements.

Because of the dated technology and the complexity of the technical environment the IT Division is at a critical point in its development. As the Agency continues to grow and works to maintain its competitiveness within the housing finance industry, the IT Division has reached a point where a reactive approach to business is no longer sufficient to meet business needs. The Division has, with the support of Agency Senior Management, embraced a more mature, proactive approach to doing business and adopted a more strategic perspective and role within the Agency.

The Division has engaged in several activities to facilitate the shift to the more proactive approach. First, the Division is continuously reviewing organizational and technical infrastructures to identify opportunities to improve current support services and to prepare the Division to be responsive to current and future IT initiatives. Next, tools for better tracking, communication and accountability are being implemented. Finally, structures and processes to more effectively align the Agency's strategic business plans with IT strategic and tactical planning are being defined and employed. These initiatives will lay the foundation for the IT Division to position itself as a leader in innovation for the Agency, advocating technical solutions that advance Agency goals.

3. FINANCING DIVISION

Objectives.

- Arrange the issuance of bonds.
- Identify other sources of capital.
- Support over $9.1 billion of loan production for the Homeownership, Multifamily and Special Lending units.

Strategies.

- Lower the cost of the Agency's debt through the issuance of variable rate bonds.
- Monitor the fixed income markets and the relationships of tax-exempt rates to taxable rates for opportunities to issue fixed interest rate housing bonds.
- Utilize the swap market to synthetically fix or cap the rates to hedge our interest rate risk.
- Maximize the refunding of previous years' single family tax-exempt authority.
- Recycle prepayments from existing single family mortgages.
- Finance over $450 million of bond-funded multifamily loans over the next five years.
- Pool loans into large financings to obtain economies of scale.
- Prudently pledge the Agency's general obligation.
- Consider incorporating the economic refunding of older multifamily bonds into future transactions.
- Partner with public agencies' pension funds, and Government Sponsored Enterprises (GSEs) such as Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, who support our financings by acting as investors or by providing services such as standby bond purchase agreements.

Implementation Considerations.

CalHFA has issued $1.1 billion of bonds through April 15, 2007 and plans on contracting to deliver another $430 million before the end of the fiscal year. Of the $1.1 billion issued to date, 88% were issued as fixed rate bonds. Funding with fixed rate debt is a significant change in strategy, which was a result as of favorable market conditions and a desire to reduce financial and operational risks as opportunities arise. To contrast, as of March 31, the Agency's total indebtedness was $7.2 billion, of which 78% ($5.6 B) was variable rate. 82% of the variable rate debt was swapped to a fixed rate through the use of interest rate swaps.

4. Fiscal Services

Objectives.

- Provide superior financial management and reporting services to Agency management. Improvements are planned to integrate systems and improve the timeliness of financial reporting systems.
- Support the affordable housing mission of the Agency by servicing a wide variety of Agency loan products, including homeownership first trust deed loans, homeownership down payment assistance loans, HELP loans, loans secured by multifamily rental developments and many other specialty loan products.
- Recruit and train staff to achieve a high quality workforce.

Strategies.

- Last year the Agency started work on a large-scale automation project to upgrade both the hardware and software of the accounting system. Our goal is to have a more integrated system to produce more timely reports and be more responsive to today's business needs. Phase II will start with the release of an RFP for a software company or solution integrator to put together a combination of applications to meet our needs.
- Provide the highest level of customer service possible to borrowers whose loans are being serviced by the Agency.
- Search for and recruit the highest quality staff, and develop managers and supervisors to take the division to the next level.

Implementation Considerations. The Fiscal Services Division will continue to support CalHFA activities through the receipt and disbursement of financial resources, the safeguarding of assets, the servicing of loans and by recording and reporting on financial matters of the Agency in accordance with professional standards in meeting all federal, state and indenture requirements. Additionally, the Division will continue to coordinate the annual financial audits of the Housing Finance Fund and the Housing Loan Insurance Fund. The Division is also prepared to assume additional loan servicing responsibilities as needed.

5. LEGISLATION

Objective.

- Advocate Agency programs and positions to Administration, California Legislative and Congressional members and appropriate stakeholder groups.

Strategies.

- Work with Agency Legal and program staffs and interested stakeholder groups to identify needed statutory changes.
- Develop and advocate the Agency's policy position on state and federal legislation.
- Promote the Agency before Congress, the State Legislature and the Governor's Office.

Implementation Considerations. The focus of the Legislative Division is to ensure that legislation which fosters CalHFA's primary purpose of providing financing to meet the housing needs of low and moderate income families in California is monitored, analyzed and enacted into law. Additionally, the Agency continuously reviews existing statutes to determine what changes, if any, will be required to meet the Agency's long-term business plan objectives. This year, the Legislative Division will continue to work with Legislators and affected stakeholders to increase the amount of debt CalHFA can have outstanding, and to further increase the amount of overall funding available to programs that increase the stock of housing available to low and moderate income households, both on the rental and homeownership side of the equation.

6. MARKETING DIVISION

Objective.

- Promote the use of CalHFA products and programs to expand affordable housing opportunities for Californians throughout the state.

Strategies.

- Continue media driven outreach efforts to increase awareness for our Agency products and programs.
- Develop marketing initiatives that support the mortgage loan and insurance volume goals for Homeownership, and maximize loan volume for the new Multifamily and Special Lending Programs.
- Utilize the most efficient and effective means to reach business partner and stakeholder target audiences.
- Use product and program initiatives as the platform for marketing and outreach efforts.
- Focus Homeownership marketing efforts in localities that have the greatest affordable housing inventory (e.g., housing at or below our sales price limits).
- Provide outreach support for specific Proposition 46 and Proposition 1C programs and projects.

Implementation Considerations. The Marketing team will focus its efforts on increasing awareness and understanding of the CalHFA brand and programs with its customers, business partners, stakeholders and employees concerned with the need for affordable housing in California. The staff will maintain outreach activities to promote key CalHFA Homeownership, Mortgage Insurance, and Multifamily programs. The FY 2007/08 Marketing plan will provide support to the divisional program goals outlined in the Business Plan. Additionally, marketing support will be provided for key Proposition 46 and Proposition 1C programs to help ensure the timely use of the funds.

7. MULTIFAMILY ASSET MANAGEMENT

Objectives:

- Protect the Agency's loans through financial monitoring, physical inspections, and the use of technology to forecast financial performance and manage risk.
- Provide financial and management compliance monitoring on behalf of HUD.
- Protect CalHFA's rights, the owner/agent's rights and tenants' rights through the interpretation of the Regulatory Agreement, the HUD Manual 4350.3, other HUD directives and state laws.

Strategies:

- Implement program to recapitalize existing agency portfolio where possible.
- Negotiate for increased affordability in existing projects when opportunities arise to lower their loan rates.
- Assign staff to work closely with lower performing assets to develop and resolve financial and physical deficiencies to maintain long-term viability of asset.

- Create and implement operating subsidy program for the Mental Health Services Act Housing Program.
- Complete sale of the sixth and final REO (real estate owned) property. Five were sold in 2006. There are no other potential REO properties on the horizon.

Implementation Considerations. The Asset Management Division is committed to supporting the Agency's Business Plan to ensure the financial, physical and public purpose goals of the Agency throughout the loan term. In keeping with Agency goals, a primary focus of the division is to implement programs to recapitalize existing Agency portfolio properties where possible.

The agency's Section 8 portfolio is now over 25 years old. Most of the Section 8 loans are 30 or 40 year term with matching subsidy contracts terms. Years of flat rents with no HUD-approved rent increases has left many properties undercapitalized and in need of physical repairs. All Section 8 owners have the right to sell or convert their properties to market rate once their 30- or 40-year commitment to HUD and CalHFA ends. To preserve this important housing stock the Agency is working to encourage third party sales, access residual receipts accounts, or implement recapitalization programs to resolve rehabilitation needs and extend affordability of properties where possible. Where rehabilitation needs are more minimal, the Agency is using pooled funds consisting of residual receipts earned from Pre-1980 Section 8 properties to provide a low rate loan program to accomplish rehabilitation needs.

The division continues to seek ways to use technology to improve financial forecasting and trend techniques to better manage risk and to provide improved communication and transfer of information capabilities with our borrower-partners.

8. Office of General Counsel (OGC)

Objectives.

- To provide legal services to the Board, the Executive Director and the Agency equal in scope and quality to those available to private businesses.
- To fully use legal technology to provide state of the art support capability.
- To fully develop both in-house and outside legal resources to meet the complex business demands of the Agency.

Strategies.

- Assign attorneys to work closely with client divisions within the Agency, both to develop and maintain client relationships, and to obtain the specialized business knowledge needed to deal with each division's unique legal needs.
- Continue to use i-Manage document management software, PDF document conversion software, and document imaging technology. OGC is exploring web based document acquisition and editing to allow interested parties to work collaboratively in complex transactions. OGC has also developed, with the IT Division, software to manage file location and related database applications.
- Provide up-to-date legal resources by developing in-house legal talent and maintaining relationships with specialized outside counsel.

Implementation Considerations. OGC recognizes the need to continuously examine and improve the delivery of legal services, to keep pace with the real estate finance industry and the state's delivery of affordable housing to Californians.

V. FINANCIAL SUMMARY

The purpose of the Financial Summary is threefold: to present the Agency's equity position as of September 30, 2006; to describe the projected effect on the Agency's equity of the assumptions made in the Agency's Five-Year Business Plan, and to provide a detailed description of the factors influencing restriction of the Agency's equity.

A. DISCUSSION OF EQUITY:

"Equity" is synonymous with "net assets." It is arrived at by applying the Agency's assets against its liabilities at any given point in time. As of September 30, 2006, the Housing Finance Fund had total assets of $9.5 billion, comprised primarily of mortgage receivables; and total liabilities against those assets of $8.2 billion comprised primarily of bond indebtedness. The residual restricted assets of $1.3 billion in the Housing Finance Fund along with $63 million in the Housing Loan Insurance Fund represent the Agency's equity position at September 30, 2006.

Although the amount of the Agency's total equity is readily identifiable, its liquidity is not. The majority of the assets underlying the equity are in the form of mortgage loans receivable, and as the following discussion will illustrate, most of the Agency's equity is allocated, or restricted in the form of reserves, for various purposes.

Since the term "reserve" has different meanings in different financial settings, the term may be a misnomer as it relates to the Agency's funds if there is an assumption that the reserves are in excess of the Agency's needs. The Agency's restricted reserves <u>are not surplus monies</u> as used in the context of state agency fund designations. The Agency's reserves are, instead, designations of restricted funds as required of any private financial institution. As described in the Agency's 2005/06 Annual Report, in the notes to the audited Financial Statements, all of the Agency's equity is restricted either by indenture or by statute, or invested in capital assets.

The categories "Restricted by Indenture" and "Restricted by Statute" reflect the Agency's restricted equity. Pursuant to state statutes, resolutions and indentures, specified amounts of cash, investments and equity must be restricted and reserved. The equity categorized as Restricted by Indenture represents the indenture restrictions of specific bonds, whereas the Restricted by Statute category represents equity that is further restricted to fund deficiencies in other bonds, programs or accounts. The Housing Finance Fund maintained all required balances in the loan and bond reserve accounts as of September 30, 2006.

Generally, there are indenture covenants requiring that equity be retained under the lien of each indenture until certain asset coverage tests, as well as cashflow tests, have been met. Other restricted reserves are pledged to meet the Agency's bond and insurance general obligations, continuing program maintenance and ongoing administrative costs.

B. ALLOCATION OF CALHFA EQUITY:

The Agency's equity balance is contained within a series of funds and accounts, including bond funds and other types of restricted funds and accounts. Within these funds and accounts, equity has been classified according to the purpose it is intended to serve. These purposes include providing security for current and future bond issues, providing for emergency needs, leveraging restricted reserves for non-bond housing assistance programs, and providing for future operating expenses and financing costs.

The Agency's equity is allocated into three main restricted reserve categories: Restricted by Indenture, Restricted by Statute, and Invested in Capital Assets. They are described as follows:

Restricted by Indenture. The amount classified as Restricted by Indenture ($724 million) includes amounts required to be retained in the various bond indenture funds. This total provides security for the specific bonds to which they are assigned.

Restricted by Statute. The amount classified as Restricted by Statute ($588 million), consisting of amounts from the Emergency Reserve Account, the Supplementary Bond Security Account, the Housing Assistance Trust, the Contract Administration Programs, and the Operating Account provides general support for all obligations of the Agency, including general obligation bonds, interest rate swaps, and mortgage insurance.

The Agency has no taxing power, and bonds issued by the Agency are not obligations of the State of California. Some Agency bonds are issued as general obligations of the Agency, however, and are payable out of any assets, revenues, or monies of the Agency, subject only to agreements with the holders of any other obligations of the Agency. This pledge is in addition to that of the specific revenues and assets pledged under the indenture. The Agency has received a Standard & Poor's rating of AA- on its general obligation pledge and a Moody's Investor Service rating of Aa3.

The Agency has $1.65 billion of bonds outstanding that are backed by CalHFA's general obligation. The Agency has also extended its general obligation pledge to $353 million of multifamily loans insured by FHA under its Risk Share Program. Our risk is 50% of this amount, or $176 million. In addition, the Agency pledges its general obligation for another $3.82 billion to its swap counterparties for the interest rate swaps that are currently outstanding.

While most of the Agency's reserves are contractually restricted as security behind the $8.2 billion in Agency liabilities and the $832 million of insured "risk in force," other reserves serve a "dual purpose." These reserves provide the Agency with the resources to meet its capital adequacy requirements, general obligation pledge risk reserves, and operating funds. At the same time, prudent management of these accounts has allowed the CalHFA Board to carefully apply them to necessary uses under the Operating Account, Emergency Reserve Account, and the Housing Assistance Trust.

To maintain the necessary security reserves, it is important that these accounts be invested in uses that will preserve principal and generate revenues to the Agency. This is necessary because fee revenues will decline as the bond issues mature, but our administrative and monitoring responsibilities will continue for the up-to-40-year life of the bonds and loans. It is planned that during these later years scheduled draws from the Emergency Reserve Account, Housing Assistance Trust, Operating Reserves and other accounts will be used to support the ongoing bond and loan administrative costs. Accordingly, when these funds are deposited or "invested" in various Agency programs, they are carefully managed to maintain low levels of risk and ultimate liquidity for long-term bond and loan management purposes.

The Contract Administration Programs ($168 million) equity category includes amounts related to programs originally funded with appropriations from the state and is restricted by state statutes. The equity is therefore not available for allocation to other Agency purposes.

Within the Operating Account, the Agency maintains an operating reserve, for the operating budget and a revolving fund for bond financing expenses. The revolving fund serves to provide short-term advances to pay the initial costs of bond issuance, pay for interest rate hedges, pay debt service on the Housing Program Bonds, and pay other costs of developing bond programs. Such allocations of equity ensure the continued administration of the Agency's programs and also serve to meet rating agency liquidity and capital adequacy requirements.

INVESTED IN CAPITAL ASSETS. Also located within the Operating Account is $825,000 of equity classified as Invested in Capital Assets. This amount represents office equipment and furniture.

C. LOSS PROTECTION:

Rating Agency Requirements. The credit rating services (Moody's Investors Service and Standard & Poor's) provide certain quantitative guidance regarding the need for reserves to protect against certain quantifiable risks of loss. The Agency has always judged the soundness of our Business Plan by projecting financial results for the five-year period and determining that these projections were consistent with rating agency criteria.

Both rating agencies require the Agency to establish reserves for each bond issue, intended to protect the bondholders and the Agency in the event that the actual cashflows associated with a bond issue differ from the cashflows projected at the time of issuance of the bonds. In order to determine the size of the reserves to be established for each issue, the rating agencies analyze the performance of the projected cashflows and assets at the time of bond issuance under a "worst case scenario." The Agency is required to set aside and maintain reserves in an amount necessary to cover any projected cashflow shortfalls under these worst-case scenarios. Such reserves represent a direct allocation and restriction of the Agency's equity.

In addition, the credit rating agencies provide certain formulas for determining capital adequacy for their, or general obligation, credit rating.

To assess the adequacy of the Agency's equity at any point in time, Moody's and S&P analyze the Agency's finances to determine the amount of residual equity remaining after providing for any potential risks which have not already been addressed to their satisfaction. In addition, S&P evaluates various financial ratios, which are indicators of leverage, liquidity, and general obligation debt exposure are evaluated.

The Agency's general obligation pledge currently stands behind $1.65 billion of single family and multifamily debt, $176 million of multifamily loans subject to FHA Risk Share, and $3.82 billion to our swap counterparties for our outstanding interest rate swaps. It is anticipated that, during the term of the Plan, direct use of the Agency's general obligation will be greatly expanded, as shown in the table below. In order to continue to meet the capital adequacy requirements of Moody's and S&P, the Agency must reserve equity against these pledges.

The rating agency assessment of CalHFA equity is very similar to the determination of capital adequacy of financial institutions and is necessary for the financial well-being of

CalHFA as the state's affordable housing bank. In addition, other benefits of meeting the rating agencies' capital adequacy requirements include:

- higher bond ratings, resulting in a lower cost of funds,
- reduced interest expense to the home buyer or multifamily project sponsor,
- continuation of a mortgage insurance program,
- elimination of special hazard insurance requirements, and
- reduction or suspension of other credit enhancements on Agency bond issues.

The costs of not meeting these requirements include:

- the possibility of a technical default under one of the covenants contained in our swap, bond, liquidity, or bond insurance agreement,
- jeopardizing the Agency's Aa3/A+ ratings of its insurance claims paying ability,
- jeopardizing ratings on the Agency's currently outstanding bonds,
- an increase in the Agency's cost of funds,
- increased cost of credit enhancement and liquidity for variable rate bonds,
- less favorable terms for new financial agreements including interest rate swaps, and
- reduction in the number of willing financial partners such as investors, bond insurers, liquidity providers, and swap counterparties.

Staff fully intends to continue the strong management practices, sound program planning, and internal control systems that have allowed us to maintain the Agency's issuer credit rating, and further expects to achieve financial results in the future consistent with our current issuer credit ratings from both Moody's and S & P.

Other Prudent Reserves. A portion of the Agency's equity is restricted to protect the Agency's assets from potential losses due to interest rate risk, natural catastrophes such as earthquakes and floods, risk associated with the multifamily loan portfolio, negative arbitrage, uncollateralizable investment agreements, and unanticipated interest rate swap terminations.

Interest Rate Risk

CalHFA's variable rate bond strategy is the key to its ability to offer attractively priced loan products in today's highly competitive, mortgage marketplace. Utilizing variable rate bonds, while hedging long-term exposure with interest rate swaps, enables borrowers to take advantage of CalHFA's significantly reduced cost of funds. In addition, the lower cost of funds provides CalHFA with an opportunity to modestly increase its capital base in spite of lending at the lowest rates in its history. As of March 31, 2007, the Agency had $5.6 billion of variable rate bonds outstanding.

Given the Agency's variable rate bond strategy, it should set aside reserves to cover the risk of rising rates, the costs of acquiring interest rate hedges, and certain risks related to such hedges. For example, hedges the Agency might enter into to reduce our tax-exempt interest rate risk are likely to leave us exposed to the risk of tax law changes that would reduce or eliminate personal and corporate income taxes. Another risk would be counterparty failure in connection with an interest rate swap or cap. In this regard, it should be noted that as of March 31, 2007, the market value of the Agency's 100+ interest rate swaps was a negative $138 million. What this means is that, if all our counterparties were to fail, the Agency would owe termination payments in this amount. In addition, continued high incidences of single family loan prepayments could upset the balance between the notional amount of the swaps and the outstanding amount of related variable rate bonds.

Because interest rates could rise, either because the Federal Reserve raises short-term rates or because changes in tax law could reduce the value of the tax exemption, the Agency needs to set aside a substantial reserve against this risk.

Natural Catastrophes

In order to provide more financing for affordable housing in high-cost areas of the state, the Agency petitioned the rating agencies to allow a higher percentage of home loans to be made to purchasers of condominiums. The rating agencies agreed, but only if the Agency would establish a reserve in an amount equal to 1% of the unpaid principal balance of such loans to effectively insure the loan portfolio against losses in the event of an earthquake. The Agency currently has in its portfolio a total of $2 billion of loans for condominiums. A portion of the Agency's multifamily loan portfolio is insured under a $20 million multifamily earthquake and flood insurance policy which has a 5% deductible, and does provide for loss of income for one year. The Agency has restricted equity to supplement the coverage not provided by the policy.

Project Maintenance

Equity is restricted to protect the Agency from possible losses on multifamily project loans. It should be recognized that the Agency could be called upon at any time to meet certain deficits as a result of debt service shortfalls on project loans. Given the size of the Agency's $1.6 billion multifamily loan portfolio and the substantial pipeline of new loans to be originated or acquired, reserves must be available as a reasonable protection from late payments, emergency maintenance needs or various cashflow shortfalls. One type of potential cashflow shortfall could result if HUD is unable to extend Section 8 Housing Assistance Payments contracts to the final maturity of our loans.

Negative Arbitrage

The Agency expects to continue to be unable to invest a portion of the proceeds of its bonds and certain loan prepayments at rates equal to the cost of funds of each transaction. Equity has been reserved to protect the Agency against such negative arbitrage and to ensure the Agency's ability to pay debt service on these bonds.

Investment Risks

A portion of the Agency's earlier investment agreements do not contain collateralization requirements. During the term of these agreements, the Agency's principal and interest are potentially at risk. The Agency has allocated equity to provide liquidity to meet debt service obligations in the event one or more of these investment agreement providers experiences financial difficulty.

D. Equity Analysis by Fund and Account:

The Agency's total equity at September 30, 2006 was $1.3 billion (Housing Finance Fund) and $63 million (Housing Loan Insurance Fund). All of this equity is restricted per the requirements described previously and as detailed below. As approved by the Board and within rating agency standards, the Agency reinvests and leverages a portion of its restricted equity to support Housing Assistance Trust programs not funded through the use of bond proceeds.

Bond Indenture Equity. As of September 30, 2006, $724 million of the Agency's total equity is restricted within the bond indentures. All of the bond indenture equity is subject to the indenture and rating agency requirements described above, and a portion of the bond indenture equity supports the Agency's operating budget.

Contract Administration Programs. The Agency administers loan and grant programs for the Rental Housing Construction Program, the School Facilities Fee Down Payment Assistance Program, and the California Homebuyer's Down Payment Assistance Program. Funding of these programs was appropriated by the legislature to other departments and agencies within the state that have contracted with the Agency for this purpose. The equity of $168 million at September 30, 2006 is unavailable for Agency reallocation. This portion of the Agency's equity will grow as Prop. 46 programs are funded.

Housing Assistance Trust (HAT). As of September 30, 2006, HAT accounts for $246 million of the Agency's total equity. All of the equity in HAT is required to meet general obligation pledges and capital adequacy requirements. While meeting these financial requirements, the Agency may also invest these funds in support of Agency programs which are not otherwise funded by bond proceeds.

Through HAT, CalHFA invests in a number of special lending programs which are targeted to special affordable housing needs in support of the primary Homeownership and Multifamily lending programs and in support of the mortgage insurance programs. Prudent management consistent with rating agency standards allows CalHFA to invest some of its restricted reserves in Agency programs through the Trust and still meet its capital adequacy and reserve requirements. These special HAT programs are discussed elsewhere herein.

The concept of using HAT as a means for making program-related investments of restricted reserves makes HAT ideal as a revolving loan fund for a variety of purposes and programs. Moneys in HAT may be utilized for short and intermediate term loan warehousing purposes in support of the Agency's main line lending programs. Examples of these kinds of investments include warehousing of loans that await assignment to bond issues, warehousing of permanent multifamily loans, and warehousing of multifamily loan participations that cannot be financed with federally tax-exempt bonds.

Supplementary Bond Security Account. The statutorily established Supplementary Bond Security Account (SBSA) accounts for $61 million of the Agency's equity at September 30, 2006. This equity is subject to many influencing factors such as rating agency requirements, loss protection against loan default risks, interest rate risks, natural catastrophes, and negative arbitrage. The SBSA is being used to indemnify the Housing Loan Insurance Fund against losses on certain CalHFA loans the Agency must insure, under the terms of its bond indentures, that may be supplemental or replacement insurance coverage. In addition the SBSA may be used in the future to insure deferred-payment loans.

Based on the bonds outstanding to date and estimates of the bonds to be issued and loans to be originated, the Supplementary Bond Security Account will be fully pledged for the duration of the Five-Year Business Plan.

Emergency Reserve Account. The Emergency Reserve Account (ERA) accounted for $63 million of the Agency's equity at September 30, 2006. The equity within the ERA enables the Agency to meet its rating agency requirements for its general obligation pledges and the maintenance of its capital adequacy requirements. It provides the primary source of loss protection for the Agency's assets and has been reinvested in support of the Agency's insurance programs.

All of the ERA equity and the equity of other accounts back the Agency's general obligation bonds of $1.65 billion. The Agency's general obligation will continue to be pledged to provide security for bonds to interest rate swap counterparties.

All of the equity in the ERA supports the maintenance of the Agency's issuer credit ratings and capital adequacy position. The maintenance of these reserve requirements at the levels prescribed by the rating agencies is as critical to the Agency's ability to achieve its mission as are the regulatory capital requirements of any other conventional marketplace lending institution.

Because the Emergency Reserve Account does not need to be held entirely in liquid form, it currently serves as a source to warehouse multifamily loans. Although in general the ERA is potentially available for legal claims and risk management purposes, the following describes how the amounts on deposit in the ERA are provisionally allocated to particular contingencies. These allocations are indicated for administrative purposes only and do not represent limitations on the use of the ERA for each contingency category. The account has multiple obligations which potentially could greatly exceed its $63 million balance.

Mortgage Insurance. The Agency's Housing Loan Insurance Fund has restricted reserves of $63 million. The Agency's Five-Year Business Plan has a goal of insuring $3.6 billion in new mortgages. Housing Finance Fund reserves would be available to be loaned to the Insurance Fund to increase the amount of its loan loss reserves, should the need arise.

On March 20, 2003, the Board of Directors authorized the Agency to provide financial support to the Housing Loan Insurance Fund from moneys in the much larger Housing Finance Fund by means of a line of credit of up to $100 million. The purpose of the line of credit is to satisfy credit rating agency concerns about the Insurance Fund's claims-paying ability during times of severe economic stress when the insurance Fund's reserves may conceivably become depleted as more and more claims are paid. Draws on the line of credit from the Housing Finance Fund will constitute interfund loans.

General Obligations. CalHFA has $1.65 billion in outstanding bonds that are backed, in whole or in part, by the Agency's general obligation (not the state's) in addition to any external credit enhancement (bond insurance or letters of credit). The rating agencies use the shortfall resulting from the worst-case cashflows on our general obligation bonds as a charge against equity. CalHFA maintains a liquidity reserve for part of this requirement in the ERA. The balance of the reserves is applied from other sources such as HAT loans and various bond issues. The reserve is available in the event that the Agency is called upon to make advances to general obligation bond programs to pay debt service, or to reimburse the bond insurer for losses, or liquidity banks for purchasing variable rate bonds that could not be remarketed. The reserve is also available for protection against potential losses from interest rate fluctuations and from counterparty failure related to interest rate swaps or other hedge instruments. In addition, to cover worst-case deficiencies in this fiscal year's new bond issues, the Agency have made temporary pledges of $54 million that will be released upon delivery of new cash flow runs. This use of the Agency G.O. will be duplicated in future issues.

Investment Reserves. CalHFA's bond issues create capital in the form of proceeds for the purchase of mortgages. As described in the CalHFA Investment Policy, usually these proceeds are invested with financial institutions with whom the Agency enters into investment agreements. During the term of these agreements, principal and interest are at risk, especially from certain early investment agreements which do not contain collateralization requirements. A portion of the ERA is allocated to provide liquidity to meet debt service obligations in the event of financial difficulties with an investment agreement until such time as the funds can be withdrawn from the investment accounts.

Self-Insured Earthquake Coverage. To provide affordable single family housing in high-cost regions of the state, CalHFA petitioned the rating agencies to allow a higher percentage of loans to be made for purchasers of condos. The rating agencies agreed, but only if the Agency established a non-bond reserve of 1% of the loan amount for all condo loans made in earthquake zone areas. The Agency has a total of $2 billion of loans on condos in its portfolio. The Agency maintains a 1% reserve for new and resale condos in a Supplementary Reserve Account for $20 million.

The Agency has also obtained earthquake and flood insurance for its multifamily portfolio with a 5% deductible. If called upon, the deductible of $1 million (calculated on the probable maximum loss of $20 million) is available in this account.

Asset Management. Various multifamily properties may have maintenance and debt service shortfalls due to a variety of factors. The Agency may be called upon at any time to meet certain funding needs (i.e., property taxes, utilities, workouts, etc.). A reserve of $3 million is a reasonable liquidity amount given the size of the Agency's growing multifamily loan portfolio, now totaling $1.6 billion of unpaid principal balance.

Operating Account. The Operating Account accounts for $38 million of the Agency's equity at September 30, 2006. This equity is restricted for meeting the Agency's capital adequacy and general obligation requirements, as well as funding the Agency's operating budget and financing reserves.

E. Business Plan Assumptions:

Cashflow analyses of the Agency's bond programs are again this year being prepared for the purpose of determining the financial strength of these programs. While these cashflow analyses are being prepared primarily for review by the credit rating agencies, they will also be used by the Agency to analyze the current equity position of any program and to forecast future net revenues under different interest rate scenarios. Applying the factors influencing restrictions of the Agency's equity, the resulting analysis quantifies the amount of restricted equity which could be reinvested in support of new or expanded programs as described in the Business Plan and projects the timing of such reinvestment opportunities.

Implementation of the Five-Year Business Plan as presented in this summary is dependent upon realization of the underlying assumptions. The plan is intended, however, to remain flexible in the event that actual events differ from these assumptions.

Major Assumptions.

- Origination of $7.5 billion of new home loans to be financed with a combination of tax-exempt and taxable bonds.
- Commitments of $450 million of multifamily loans to be financed with agency

general obligation, issued as either tax-exempt or taxable bonds.

- Insurance of approximately $3.6 billion of mortgages.
- Sufficient Private Activity Bond (PAB) allocation. In the out years of the Plan, increasing amounts of PAB may be required if our opportunity to recycle prior single family allocation by means of replacement refundings or direct purchase of replacement loans. Recycling opportunities may decline because of the delayed effect of certain prior changes to federal tax law.
- Ability to rely on variable rate financing structures (both swapped and unswapped) to achieve interest rate savings. If bank liquidity for put bonds becomes unavailable, other variable rate structures (auction or indexed bonds) would need to be cost effective.
- Agency fund balances are adequate over the life of the Plan to maintain capital reserve requirements related to credit adjustments, real estate losses and Agency general obligations.

Other Assumptions. Several other programmatic and financial assumptions were made to arrive at the projections comprising the Agency's Five-Year Business Plan. The following is a summary of such assumptions:

- Home loan portfolio maintains its current delinquency ratio and REO experience.
- Capital reserve requirements for multifamily loans can be reduced through risk-sharing agreements and as a result of continued low delinquency and default rates.
- Homeownership prepayments to be received according to the following table:

MORTGAGE RATES	% OF PSA RATE
Below 4.00%	100%
4.00% - 4.99%	141%
5.00% - 5.99%	196%
6.00% - 6.99%	268%
7.00% - 7.99%	349%

- Average investment rate in the absence of investment agreements to equal one month LIBOR.
- Financial strength of the entire multifamily portfolio to remain at the current level.
- Interest rates remain sufficiently low during the life of the Plan so that significant economic savings can continue to be generated by means of variable-rate bond strategies, especially when applied to the refunding of prior bonds.
- Operating budget is assumed to increase an average of 5% per year.
- Relatively stable California real estate valuations.
- No unexpected insurance losses.
- No principal losses from investments.
- No failures of swap counterparties or unanticipated swap termination events.
- Only minor changes in the value of the federal tax exemption.

RESOLUTION 07-15

WHEREAS, pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), the California Housing Finance Agency ("Agency") has the authority to engage in activities to reduce the cost of mortgage financing for home purchase and rental housing development, including the issuance of bonds and the insuring of mortgage loans;

WHEREAS, the Agency's statutory objectives include, among others, increasing the range of housing choices for California residents, meeting the housing needs of persons and families of low or moderate income, maximizing the impact of financing activities on employment and local economic activity, and implementing the objectives of the California Statewide Housing Plan;

WHEREAS, the Agency desires to amend Resolution 06-13 adopted on May 11, 2006, which committed the Agency to a Business Plan for the fiscal years 2006/2007 through 2010/2011; and

WHEREAS, the Agency has presented to the Board of Directors a fiscal year 2007/2008 through 2011/2012 annual update of the Business Plan, in order to adjust to the ever changing economic, fiscal and legal environment, which updated Business Plan is designed to assist the Agency to meet its statutory objectives, to address the housing needs of the people of California and to provide the Agency with the necessary road map to continue its bond, mortgage financing, and mortgage insurance activities well into the future.

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

1. The updated 2007/08-2011/12 Five-Year Business Plan, a copy of which is attached hereto and made a part hereof, is hereby fully endorsed and adopted.

2. In implementing the updated Business Plan, the Agency shall strive to satisfy all the capital adequacy, reserve, and any other requirements necessary to maintain the Agency's general obligation credit ratings and the current credit ratings on its debt obligations, to comply with the requirements of the Agency's providers of credit enhancement, liquidity, and interest rate swaps and caps, and to satisfy any other requirements of the Agency's bond and insurance programs.

3. Because the updated Business Plan is necessarily based on various economic, fiscal and legal assumptions, in order for the Agency to respond to changing circumstances, the Executive Director shall have the authority to adjust the Agency's day-to-day activities to reflect actual economic, fiscal and legal circumstances in order to attain goals and objectives consistent with the intent of the updated Business Plan.

Resolution 07-15
Page 2

I hereby certify that this is a true and correct copy of Resolution 07-15 adopted at a duly constituted meeting of the Board of Directors of the Agency held on May 10, 2007, at Burbank, California.

ATTEST: ___________________________
Secretary

State of California

MEMORANDUM

To: Board of Directors **Date:** May 10, 2007

Theresa A. Parker, Executive Director

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: BOARD RESOLUTION 07-16: OPERATING BUDGET 2007/2008

Based on the Staff's analysis of projected lending and mortgage insurance activities and the implementation of several Strategic Projects, a Fiscal Year 2007-08 operating budget of $45.7 million is submitted for the Board's approval.

On several occasions during the past year, the Staff has discussed with the Board a number of Strategic Projects and Initiatives that are essential to the long-term viability of the Agency. During Fiscal Year 2007-08 the Agency plans to begin implementation of these projects and the cost of this work is included in the proposed budget. Largely due to the cost of these projects, the proposed operating budget for Fiscal Year 2007-08 represents a 21% increase over the operating budget approved by the Board for FY 2006-07. Of the proposed increase, 15% is in direct support of Strategic Projects and Initiatives which are discussed in more detail in the Five Year Business Plan. The specific line items in the budget that are impacted by the cost of the projects are "Personal Services" and "Consulting and Professional Services."

The remaining 6% proposed increase is reflected in the Personal Services line item and represents:

1. Salary increases negotiated last year for 90% of our employees;
2. Board enacted salary increases for the exempt employees;
3. Additional positions and upgrades that have been added to the budget.

Twenty-one new positions are proposed in the budget. Five are of limited term duration to back fill behind employees who are assigned to our Fiscal Services Strategic Project. Once that project is completed, the five positions will no longer be needed and will be removed from the subsequent budget.

Three positions are in support of the Mental Health Services Act (MHSA). The Agency will be receiving fees which will fully fund these three positions. Five positions are proposed to be added to the Loan Servicing Unit. The volume of loans being serviced by this unit has more than doubled while staffing has remained level. Loan Servicing is a self supporting unit and funding for these positions will be covered by servicing fees. It should be noted that one of the positions was funded out of temporary help.

The balance of proposed staffing increases not related to Strategic Projects and Initiatives or self funded are as follows: One position in Executive for workload increase; one position in Business Services and Facilities for increased workload in inventory, privacy, and tracking of packages and files; two positions in Asset Management due to growth in the portfolio and new requirements of HUD; one position in Homeownership Portfolio Management Unit to conduct quality assurance reviews; one position in Financing to support the Mortgage Backed Security Program; and, one position in Mortgage Insurance for additional workload in the underwriting area.

One other noteworthy item is the 38% increase in our Central Administrative Services costs. This line item represents "pro-rata" services provided to the Agency by other state departments such as the State Controller, the State Treasurer and the Department of Finance. These costs are based on a formula established by the State without input from the Agency.

The proposed FY 2007-08 budget represents modest growth within the Agency while fully funding the new expenditures related to Strategic Projects and Initiatives and the new MHSA program. Once again, it is important to note that the Agency's operations are completely self-supporting. The cost of Agency operations have no impact on the State general fund or any State special funds. In fact, Staff is proud to note that the Agency's accomplishments directly aid the State economy.

April 26, 2007

CALIFORNIA HOUSING FINANCE AGENCY
2007-08
HOUSING AND INSURANCE OPERATING FUNDS
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Actual 2005-06	Budgeted 2006-07	Proposed 2007-08
PERSONAL SERVICES			
Authorized Salaries	$15,734	$19,456 **	$22,136
Estimated Salary Savings		(928)	(1,107)
Staff Benefits	4,994	5,492 **	6,309
TOTALS, Personal Services	$20,728	$24,020 **	$27,338
OPERATING EXPENSES AND EQUIPMENT			
General Expense	771	750	757
Communications	619	660	725
Travel	496	502	580
Training	143	155	185
Facilities Operation	2,652	2,885	3,000
Consulting & Professional Services	5,152	6,062	9,890
*Central Admin. Serv.	1,230	1,428	1,971
Information Technology	954	830	825
Equipment	439	450	400
TOTALS, Operating Expenses and Equipment	$12,454	$13,722	$18,333
TOTALS, EXPENDITURES	$33,182	$37,742 **	$45,671

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

**Changes due to $1,086 augmentation at March 2007 board meeting.

April 26, 2007

CALIFORNIA HOUSING FINANCE AGENCY
2007-08
CalHFA FUND OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Actual 2005-06	Budgeted 2006-07		Proposed 2007-08
PERSONAL SERVICES				
Authorized Salaries	$15,244	$18,576	**	$21,161
Estimated Salary Savings		(887)		(1,058)
Staff Benefits	4,772	5,244	**	6,031
TOTALS, Personal Services	$20,016	$22,933	**	$26,134
OPERATING EXPENSES AND EQUIPMENT				
General Expense	754	725		717
Communications	605	637		700
Travel	467	472		530
Training	130	135		160
Facilities Operation	2,574	2,794		2,900
Consulting & Professional Services	4,550	5,797		9,448
*Central Admin. Serv.	1,139	1,355		1,916
Information Technology	922	800		800
Equipment	439	400		350
TOTALS, Operating Expenses and Equipment	$11,580	$13,115		$17,521
Distributed Administration	($403)	($467)		($552)
TOTALS, EXPENDITURES	$31,193	$36,048	**	$43,103

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

**Changes due to $1,086 augmentation at March 2007 board meeting.

April 26, 2007

CALIFORNIA HOUSING FINANCE AGENCY
2007-08
MIS FUND OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Actual 2005-06	Budgeted 2006-07	Proposed 2007-08
PERSONAL SERVICES			
Authorized Salaries	$489	$880 **	$975
Estimated Salary Savings		(41)	(49)
Staff Benefits	222	248 **	278
TOTALS, Personal Services	$711	$1,087 **	$1,204
OPERATING EXPENSES AND EQUIPMENT			
General Expense	17	25	40
Communications	14	23	25
Travel	29	30	50
Training	13	20	25
Facilities Operation	77	91	100
Consulting & Professional Services	601	265	442
*Central Admin. Serv.	91	73	55
Information Technology	32	30	25
Equipment	0	50	50
TOTALS, Operating Expenses and Equipment	$875	$607	$812
Distributed Administration	$403	$467	$552
TOTALS, EXPENDITURES	$1,989	$1,694 **	$2,568

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

**Changes due to $1,086 augmentation at March 2007 board meeting.

April 26, 2007

CALIFORNIA HOUSING FINANCE AGENCY
2007-08

SUMMARY
PERSONNEL YEARS AND SALARIES

	PERSONNEL YEARS			AMOUNT		
DIVISION	Actual 2005-06	Budgeted 2006-07	Proposed 2007-08	Actual 2005-06	Budgeted 2006-07	Proposed 2007-08
EXECUTIVE OFFICE	5.5	6.0	7.0	$490,536	$509,589	$665,271
ADMINISTRATION	14.8	20.0	21.0	$735,363	$1,110,805	$1,212,407
FINANCING	10.7	14.0	15.0	$840,218	$1,119,853	$1,276,637
FISCAL SERVICES	53.8	66.0	76.0	$2,769,907	$3,814,868	$4,393,663
LEGAL	18.5	19.0	19.0	$1,460,691	$1,625,111	$1,745,554
MARKETING	7.0	7.0	7.0	$445,588	$484,425	$499,756
I.T.	15.4	19.0	19.0	$1,102,262	$1,375,369	$1,425,934
HOMEOWNERSHIP	46.7	54.0	55.0	$2,696,999	$3,369,736	$3,629,350
MIS	9.9	12.0	13.0	$486,310	$855,665	$974,964
MULTIFAMILY	32.6	36.0	40.0	$2,231,573	$2,648,431	$3,068,602
ASSET MANAGEMENT	26.2	32.0	34.0	$1,500,170	$2,185,472	$2,399,317
Temporary Help	20.4	7.0	16.4	$845,287	$291,000	$738,500
Overtime	0.0	0.0	0.0	$128,819	$65,205	$106,080
TOTAL SALARIES	261.5	292.0	322.4	$15,733,723	$19,455,529	$22,136,035
Less Salary Savings*		(14.6)	(16.1)		($972,776)	($1,106,802)
NET SALARIES	261.5	277.4	306.3	$15,733,723	$18,482,753	$21,029,233

*This figure represents a normal rate of vacancies and lag time in refilling positions in accordance with State budget practices.

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2006/2007 Personnel Years and Salaries

ORGANIZATIONAL UNIT Classification	NUMBER OF POSITIONS Filled 2005-06	 Authorized 2006-07	 Proposed 2007-08	EXPENDITURES Actual 2005-06 (Salary Range)	 Estimated 2006-07	 Proposed 2007-08
OPERATIONS						
Executive Office						
Executive Director	1.0	1.0	1.0	$9,824-10,625	$127,496	$175,000
Chief Deputy Director	0.5	1.0	1.0	9,237-9,992	119,904	175,000
Director of Legislation	1.0	1.0	1.0	6,785-7,337	92,450	95,500
Assoc Govtl Prog Analyst	1.0	1.0	1.0	4,255-5,172	63,063	64,546
Adm Asst II	1.0	1.0	1.0	4,255-5,172	63,063	64,546
Adm Asst I	0.0	0.0	1.0	3,538-4,499	0	46,361
Executive Secretary	0.3	1.0	1.0	2,921-3,551	43,613	44,318
Office Techn-Typing	0.7	0.0	0.0	2,598-3,157	0	0
Totals, Executive Office	5.5	6.0	7.0	$490,536	$509,589	$665,271
Administrative Division						
Director's Office:						
Director of Adm	1.0	0.0	0.0	7,647-8,433	0	0
C.E.A. I	0.0	1.0	1.0	7,647-8,433	105,738	108,928
Staff Services Mgr II	0.0	1.0	1.0	5,970-6,506	71,117	73,962
Adm Asst II	0.0	1.0	0.0	4,255-5,172	62,063	0
Adm Asst I	0.9	0.0	1.0	3,538-4,499	0	56,148
Totals, Director's Office	1.9	3.0	3.0	$148,947	$238,918	$239,038
Administrative Services:						
Staff Services Mgr I	1.9	2.0	2.0	4,912-5,926	136,453	140,871
Personnel Selection Consultant I	0.0	0.0	1.0	4,678-5,643	0	67,779
Telecommunications Systems Analyst II	0.0	0.0	1.0	4,255-5,431	0	67,779
Assoc Personnel Analyst	1.0	1.0	0.0	4,255-5,172	63,063	0
Assoc Business Mgt Analyst	0.0	0.0	2.0	4,255-5,172	0	119,521
Assoc Budget Analyst	0.0	1.0	0.0	4,255-5,172	62,063	0
Training Officer I	0.9	1.0	1.0	4,255-5,172	63,063	64,546
Business Service Officer II-Spec	1.0	1.0	0.0	3,877-4,912	57,573	0
Sr Pers Services Spec	1.0	1.0	1.0	3,538-4,499	52,605	53,669
Staff Services Analyst-Gen	2.3	4.0	4.0	2,724-4,300	209,420	214,677
Office Techn-Typing	0.0	1.0	3.0	2,598-3,157	37,881	118,189
Pers Services Spec I	1.0	1.0	1.0	2,516-3,933	48,196	49,084
Mgt Services Techn	1.0	1.0	1.0	2,413-3,313	40,756	41,345
Program Techn	0.4	1.0	1.0	2,205-2,877	35,528	35,909
Office Asst-Typing	0.8	0.0	0.0	2,073-2,733	0	0
Office Asst-Gen	1.6	2.0	0.0	2,006-2,679	65,286	0
Totals, Administrative Services	12.9	17.0	18.0	$586,416	$871,887	$973,369
Totals, Administrative Division	14.8	20.0	21.0	$735,363	$1,110,805	$1,212,407
Financing Services:						
Director	1.0	1.0	1.0	9,115-9,857	118,284	170,000
Risk Manager	1.0	1.0	1.0	8,611-9,314	111,768	137,500
Financing Chief	0.6	1.0	1.0	7,208-7,947	96,361	99,175
Acctg Administrator III	1.0	1.0	1.0	6,556-7,228	87,741	90,211
Financing Ofcr	3.4	4.0	4.0	5,913-7,148	346,089	356,814
Financing Spec	1.3	2.0	2.0	4,674-5,681	138,347	141,801
Financing Assoc	1.7	1.0	2.0	4,255-5,172	63,063	117,648
Adm Asst I	0.7	1.0	1.0	3,538-4,499	54,990	56,150
Staff Services Analyst-Genl	0.0	2.0	2.0	2,724-4,300	103,210	107,338
Totals, Financing Services	10.7	14.0	15.0	$840,218	$1,119,853	$1,276,637

Fiscal Services:						
Comptroller, C.E.A. II	1.0	1.0	1.0	7,302-8,051	100,993	103,993
Acctg Administrator III	1.0	1.0	1.0	6,556-7,228	87,741	90,211
Acctg Administrator II	2.0	3.0	4.0	5,393-6,506	237,216	310,889
Sr Adm Analyst-Acctg Sys	0.0	1.0	2.0	5,393-6,506	71,582	141,750
Staff Adm Analyst-Acctg Sys	0.0	0.0	1.0	4,912-5,926	0	61,302
Acctg Administrator I-Supvr	1.6	2.0	3.0	4,912-5,926	143,234	209,225
Acctg Administrator I-Spec	5.4	6.0	9.0	4,674-5,681	414,040	600,396
Sr Acctg Officer-Supvr	2.0	2.0	0.0	4,470-5,393	131,441	0
Assoc Acctg Analyst	1.2	1.0	1.0	4,467-5,431	67,168	67,775
Assoc Adm Analyst-Acctg Sys	0.4	1.0	1.0	4,467-5,431	66,168	67,775
Sr Acctg Officer-Spec	6.9	11.0	9.0	4,255-5,172	692,690	603,793
Mortgage Loan Acctg Ofcr	9.1	7.0	3.0	3,715-4,516	384,319	169,079
Accountant Trainee	1.4	5.0	11.0	3,133-3,628	220,661	498,012
Staff Services Analyst-Genl	0.0	0.0	1.0	2,724-4,300	0	33,996
Office Techn-Typing	0.8	2.0	5.0	2,598-3,157	75,762	176,062
Mgt Services Techn	2.8	3.0	0.0	2,413-3,313	122,269	0
Office Asst-Typing	1.0	1.0	0.0	2,073-2,733	33,801	0
Loan Servicing:						
Housing Finance Ofcr	0.5	1.0	3.0	5,913-7,148	85,773	233,366
Housing Finance Spec	1.2	1.0	0.0	4,674-5,681	70,173	0
Housing Finance Assoc	3.8	4.0	5.0	4,255-5,172	250,251	322,726
Housing Finance Asst	4.5	5.0	3.0	3,538-4,300	261,026	224,193
Housing Finance Trainee	0.0	0.0	2.0	2,724-3,586	0	89,507
Office Techn-Typing	3.2	3.0	5.0	2,598-3,157	116,643	179,544
Mgt Services Techn	1.0	2.0	2.0	2,413-3,313	80,513	82,694
Office Asst-Typing	3.0	3.0	3.0	2,073-2,733	101,404	102,340
Office Asst - Gen	0.0	0.0	1.0	2,006-2,679	0	25,035
Totals, Fiscal Services	53.8	66.0	76.0	$2,769,907	$3,814,868	$4,393,663
Legal Services:						
General Counsel	1.0	1.0	1.0	9,115-9,857	118,284	170,000
Asst Chief Counsel	0.0	0.0	1.0	8,492-10,484	0	130,753
Staff Counsel IV	1.0	1.0	1.0	8,486-10,477	125,110	130,114
Staff Counsel III	6.6	6.0	5.0	7,682-9,478	679,039	588,502
Staff Counsel	1.5	2.0	2.0	4,674-7,828	183,291	190,624
Housing Finance Spec	1.0	1.0	1.0	4,674-5,681	69,173	70,900
Sr Legal Analyst	3.4	4.0	4.0	4,467-5,431	264,671	271,098
Assoc Govtl Prog Analyst	1.0	1.0	1.0	4,255-5,172	63,063	64,546
Adm Asst I	0.0	0.0	1.0	3,538-4,499	0	44,154
Office Techn-Typing	1.7	1.0	0.0	2,598-3,157	38,881	0
Sr Typist-Legal	0.6	2.0	2.0	2,504-3,400	83,599	84,863
Office Asst-Typing	0.7	0.0	0.0	2,073-2,733	0	0
Totals, Legal Services	18.5	19.0	19.0	$1,460,691	$1,625,111	$1,745,554
Marketing Services:						
Staff Services Mgr III	1.0	1.0	1.0	6,556-7,228	87,741	90,211
Sr Marketing Spec	1.0	1.0	1.0	5,153-6,264	76,166	78,173
Staff Services Mgr I-Spec	2.0	2.0	2.0	4,912-5,926	144,234	147,923
Staff Info Systems Analyst-Spec	1.0	1.0	1.0	4,898-6,253	72,465	74,324
Housing Finance Spec	0.0	0.0	1.0	4,674-5,681	0	67,779
Assoc Govtl Prog Analyst	1.0	1.0	0.0	4,255-5,172	63,063	0
Mgt Services Techn	1.0	1.0	1.0	2,413-3,313	40,756	41,346
Totals, Marketing Services	7.0	7.0	7.0	$445,588	$484,425	$499,756

Information Services Division						
Information Services:						
C.I.O	1.0	1.0	1.0	8,064-8,720	104,640	125,000
Systems Software Spec III-Supvr	0.5	1.0	1.0	6,205-7,918	91,487	94,106
Totals, Information Services	1.5	2.0	2.0	$144,498	$196,127	$219,106
Information Systems:						
Sr Programmer Analyst-Supvr	1.0	1.0	2.0	5,658-7,220	83,518	171,637
Staff Programmer Analyst-Spec	4.4	2.0	2.0	4,898-6,253	155,076	156,079
Assoc Programmer Analyst-Spec	0.0	2.0	2.0	4,467-5,703	130,335	135,548
Programmer II	0.1	0.0	1.0	3,900-4,741	0	48,672
Programmer I	0.3	1.0	0.0	3,155-3,765	46,184	0
Totals, Information Systems	5.8	6.0	7.0	$396,758	$415,113	$511,936
Technical Services:						
Sr Info Systems Analyst-Supvr	0.5	0.0	0.0	5,658-6,876	0	0
Systems Software Spec II-Tech	1.0	1.0	1.0	5,378-6,864	83,367	85,662
Sr Program Systems Analyst-Spec	0.0	2.0	1.0	5,134-6,239	149,736	77,863
Staff Info Systems Analyst-Spec	3.0	4.0	3.0	4,898-6,253	294,764	243,348
Systems Software Spec I-Tech	1.0	1.0	1.0	4,897-6,252	76,025	78,026
Assoc Info Systems Analyst-Spec	1.0	1.0	2.0	4,467-5,703	66,168	123,523
Asst Info Systems Analyst	0.3	1.0	1.0	3,004-4,742	55,188	56,356
Office Techn-Typing	0.6	1.0	0.0	2,598-3,157	38,881	0
Mgt Services Techn	0.0	0.0	1.0	2,413-3,313	0	30,114
Info Systems Techn	0.7	0.0	0.0	2,398-3,442	0	0
Totals, Technical Services	8.1	11.0	10.0	$561,006	$764,129	$694,892
Totals, Information Services Division	15.4	19.0	19.0	$1,102,262	$1,375,369	$1,425,934
Temporary Help	9.5	3.0	8.4	394,356	126,000	378,500
Overtime	0.0	0.0	0.0	100,263	55,890	76,960
Totals, Operations	135.2	154.0	172.4	$8,339,184	$10,221,910	$11,674,682
LENDING PROGRAMS						
Homeownership Programs						
Homeownership Lending:						
Director	0.7	1.0	1.0	9,115-9,857	118,284	180,000
Deputy Director	0.1	1.0	1.0	7,915-8,728	104,725	108,914
Exec Asst	1.0	1.0	1.0	3,180-3,865	47,376	48,231
Production:						
Housing Finance Chief	1.0	1.0	1.0	7,208-7,947	96,361	99,175
Housing Finance Ofcr	4.5	5.0	5.0	5,913-7,148	433,863	446,018
Housing Finance Spec	6.1	7.0	7.0	4,674-5,681	483,214	496,303
Housing Finance Assoc	6.9	7.0	13.0	4,255-5,172	440,438	789,900
Housing Finance Asst	12.8	14.0	9.0	3,538-4,300	738,471	530,599
Housing Finance Trainee	1.0	1.0	1.0	2,724-3,586	44,035	44,756
Support Staff-Sacramento:						
Office Techn-Typing	0.0	1.0	2.0	2,598-3,157	37,881	78,792
Office Techn-Gen	0.0	0.0	1.0	2,551-3,103	0	31,836
Office Asst-Typing	2.3	3.0	0.0	2,073-2,733	99,404	0
Office Asst-Gen	0.0	0.0	1.0	2,006-2,679	0	25,035
Special Lending:						
Housing Finance Ofcr	1.8	2.0	4.0	5,913-7,148	172,545	327,294
Housing Finance Spec	2.2	2.0	0.0	4,674-5,681	138,347	0
Housing Finance Assoc	2.1	3.0	4.0	4,255-5,172	190,188	246,738
Housing Finance Asst	2.8	2.0	1.0	3,538-4,300	105,210	53,669
Office Techn-Typing	0.5	1.0	1.0	2,598-3,157	38,881	39,396
Mgt Services Techn	0.9	2.0	2.0	2,413-3,313	80,513	82,694
Totals, Homeownership Programs	46.7	54.0	55.0	$2,696,999	$3,369,736	$3,629,350

Insurance Program						
CA Housing Loan Insurance Fund:						
Director's Office.						
Director	0.5	1.0	1.0	8,798-9,515	114,180	160,000
Chief	1.0	1.0	1.0	7,208-7,947	91,830	94,463
Admin Asst I	0.1	0.0	1.0	3,538-4,499	0	44,154
Office Techn-Typing	0.4	1.0	0.0	2,598-3,157	38,881	0
Delinquency and Claims:						
Housing Finance Ofcr	1.0	1.0	1.0	5,913-7,148	75,508	77,488
Product Development/Outreach:						
Housing Finance Ofcr	0.0	1.0	0.0	5,913-7,148	74,508	0
Housing Finance Spec	1.0	1.0	2.0	4,674-5,681	69,173	141,800
Housing Finance Assoc	0.9	1.0	0.0	4,255-5,172	62,063	0
Risk Management:						
Housing Finance Ofcr	1.0	1.0	1.0	5,913-7,148	75,508	77,488
Housing Finance Spec	1.0	1.0	3.0	4,674-5,681	69,173	187,563
Operations.						
Housing Finance Ofcr	0.0	0.0	1.0	5,913-7,148	0	73,794
Housing Finance Spec	1.0	1.0	0.0	4,674-5,681	69,173	0
Housing Finance Assoc	0.3	1.0	1.0	4,255-5,172	63,063	64,546
Housing Finance Asst	1.7	1.0	1.0	3,538-4,300	52,605	53,668
Totals, Insurance Program	9.9	12.0	13.0	$486,310	$855,665	$974,964
Multifamily Programs						
Lending:						
Director	0.3	1.0	1.0	8,611-9,314	111,768	180,000
Deputy Director	0.7	1.0	1.0	7,915-8,728	105,725	108,914
Spec Asst to Director	1.0	1.0	1.0	7,021-8,051	100,993	103,996
Housing Finance Chief	2.4	2.0	2.0	7,208-7,947	192,722	198,351
Housing Finance Ofcr	6.1	7.0	8.0	5,913-7,148	606,408	698,219
Housing Finance Spec	2.9	5.0	4.0	4,674-5,681	342,867	296,170
Housing Finance Assoc	1.9	2.0	4.0	4,255-5,172	126,125	258,180
Housing Finance Asst	4.6	5.0	5.0	3,538-4,300	262,026	268,347
Housing Finance Trainee	0.4	0.0	0.0	2,724-3,586	0	0
Support Staff:						
Exec Asst	1.0	1.0	1.0	3,180-3,865	47,376	48,231
Office Techn-Typing	0.0	0.0	2.0	2,598-3,157	0	71,822
Office Asst-Typing	1.0	1.0	0.0	2,073-2,733	33,801	0
Special Lending:						
Housing Finance Chief	1.0	1.0	1.0	7,208-7,947	96,361	99,175
Housing Finance Ofcr	2.0	1.0	2.0	5,913-7,148	86,773	178,408
Housing Finance Spec	1.0	1.0	0.0	4,674-5,681	69,173	0
Housing Finance Trainee	0.1	0.0	1.0	2,724-3,586	0	44,753
Mgt Services Techn	0.4	1.0	0.0	2,413-3,313	40,756	0
Technical Support:						
Sr Housing Constrn Insp	1.0	1.0	1.0	6,460-7,848	87,443	90,941
Supvng Design Ofcr	0.0	0.0	1.0	6,059-7,366	0	75,616
Housing Constrn Insp	0.8	1.0	1.0	6,022-7,319	82,398	85,694
Sr Design Ofcr	1.0	1.0	1.0	5,260-6,389	77,669	79,736
Assoc Design Ofcr	1.0	1.0	1.0	4,797-5,829	70,949	72,747
Housing Finance Assoc	1.0	1.0	1.0	4,255-5,172	64,063	64,546
Housing Finance Trainee	1.0	1.0	1.0	2,724-3,586	43,035	44,756
Totals, Multifamily Programs	32.6	36.0	40.0	$2,231,573	$2,648,431	$3,068,602

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Asset Management						
Asset Management:						
C.E.A III	1.0	1.0	1.0	8,030-8,854	110,967	114,366
Housing Finance Chief	0.9	1.0	0.0	7,208-7,947	96,361	0
Adm Asst I	1.0	1.0	1.0	3,538-4,499	54,990	56,150
Asset Management-North:						
Housing Finance Chief	0.0	0.0	1.0	7,208-7,947	0	99,175
Housing Finance Ofcr	2.7	3.0	4.0	5,913-7,148	260,318	356,815
Housing Maint Insp	2.0	3.0	3.0	5,634-6,843	233,516	242,857
Staff Programmer Analyst-Spec	0.9	1.0	1.0	4,898-6,253	72,465	74,324
Housing Finance Spec	3.2	4.0	2.0	4,674-5,681	274,694	150,180
Housing Finance Assoc	1.4	2.0	3.0	4,255-5,172	126,125	193,635
Housing Finance Asst	0.8	1.0	0.0	3,538-4,300	52,605	0
Housing Finance Trainee	0.0	0.0	1.0	2,724-3,586	0	44,753
Mgt Services Techn	1.0	1.0	0.0	2,413-3,313	40,756	0
Support Staff-North.						
Office Techn-Typing	1.0	1.0	2.0	2,598-3,157	38,881	78,792
Office Asst-Typing	0.0	1.0	0.0	2,073-2,733	32,801	0
Asset Management-South:						
Housing Finance Chief	0.0	1.0	1.0	7,208-7,947	91,062	93,664
Housing Finance Ofcr	1.0	1.0	1.0	5,913-7,148	85,773	89,204
Housing Maint Insp	2.0	2.0	3.0	5,634-6,843	156,716	233,297
Housing Finance Spec	2.8	3.0	3.0	4,674-5,681	207,520	212,701
Housing Finance Assoc	1.8	2.0	3.0	4,255-5,172	126,125	182,192
Housing Finance Asst	0.2	0.0	1.0	3,538-4,300	0	53,664
Housing Finance Trainee	0.8	1.0	1.0	2,724-3,586	46,035	44,756
Mgt Services Techn	0.2	0.0	0.0	2,413-3,313	0	0
Support Staff-South:						
Office Techn-Typing	1.5	2.0	2.0	2,598-3,157	77,762	78,792
Totals, Asset Management	26.2	32.0	34.0	$1,500,170	$2,185,472	$2,399,317
Temporary Help	10.9	4.0	8.0	450,931	165,000	360,000
Overtime	0.0	0.0	0.0	28,556	9,315	29,120
Totals, Lending Programs	126.3	138.0	150.0	$7,394,539	$9,233,619	$10,461,353
TOTALS, AUTHORIZED POSITIONS	**261.5**	**292.0**	**322.4**	**$15,733,723**	**$19,455,529**	**$22,136,035**
Regular/Ongoing Positions	*241.1*	*285.0*	*306.0*	*14,759,617*	*19,099,324*	*21,291,455*
Temporary Help	*20.4*	*7.0*	*16.4*	*845,287*	*291,000*	*738,500*
Overtime	*0.0*	*0.0*	*0.0*	*128,819*	*65,205*	*106,080*
Salary Increase (10 Exempt Employees Only) - 4%						*62,720*
TOTAL (Including Exempt Salary 4% Increase)						**$22,198,755**

CALIFORNIA HOUSING FINANCE AGENCY
ACTUAL AND PROJECTED REVENUES AND EXPENSES
OPERATING ACCOUNT
(In millions)

	2005/06 (Actual)	2006/07 (Budgeted)	2007/2008 (Projected)
Beginning Balance	$34.0	$30.4	$43.1
HOUSING REVENUES			
Administrative Fees:			
Single Family/Second Programs	1.8	2.0	2.0
HUD/Multifamily	1.9	1.9	2.0
Commitment Fees/Misc. Inc.	1.3	1.6	1.7
SMIF Interest on Balance	1.7	1.8	1.9
Operating Transfer	20.6	41.6	37.5
Total Housing Revenues	$27.3	$48.9	$45.1
INSURANCE REVENUES			
Investments and Premiums	1.6	1.7	2.6
HOUSING AND INSURANCE TOTAL OPERATING REVENUES	$28.9	$50.6	$47.7
EXPENSES			
Housing - Operating Budget	30.7	36.0	43.1
Insurance - Operating Budget	1.6	1.7	2.6
HOUSING AND INSURANCE FUNDS TOTAL OPERATING EXPENSES	$32.3	$37.7	$45.7
Non-Operating Expenses	0.2	0.2	0.2
Ending Balance	$30.4	$43.1	$44.9

RESOLUTION 07-16

CALHFA OPERATING BUDGET

FISCAL YEAR 2007/2008

WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2007/2008 fiscal year;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The operating budget attached hereto is hereby approved for operations of the California Housing Finance Agency Fund for fiscal year 2007/2008.

I hereby certify that this is a true and correct copy of Resolution 07-16 adopted at a duly constituted meeting of the Board of the Agency held on May 10, 2007, at Burbank, California.

ATTEST: ____________________
Secretary

Attachment

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April 26, 2007

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CONFIDENTIAL – ATTORNEY-CLIENT AND WORK PRODUCT PRIVILEGES APPLY

John Courson
Board Chair
California Housing Finance Agency
P.O. Box 4034
Sacramento, CA 95812

Re: CalHFA - Setting of Salary for Key Exempt Management

Dear Mr. Courson:

We have been asked to address whether the Controller is required to implement increases approved by the California Housing Finance Agency's Board of Directors ("Board"). A necessary subpart of this question is whether DPA's role in the process is purely ministerial, or if it is actually required to approve the actions of the Board.

We have been asked to look at two main questions relating to the processing of increased salaries and salary ranges for several exempt management positions within the California Housing Finance Agency ("Agency").

I. Questions

1. The first question is whether the Controller is required to implement increases approved by the Board. A necessary subpart of this question is whether DPA's role in the process is purely ministerial, or if it is actually required to approve the actions of the Board.

2. The second question is whether an increase may be "undone" retroactively. A necessary subpart of this question is what rights (if any) become vested once the Board passes a resolution regarding salaries.

II. Short Answers

1. We believe the Controller is required to implement the pay increases approved by the Board, without the necessity of obtaining DPA approval, at least with respect to the Executive Director and Chief Deputy Director positions. DPA does not have any power over the setting of salaries for those positions. Although the answer is not quite as clear with respect to the Director of IT, we believe the result is the same.

2. Assuming the Board has the ultimate authority to approve salary increases, and the roles of the Controller and/or DPA are purely ministerial in nature, the right to receive that increased salary becomes vested upon the approval by the Board. Thus, an increase by the Board cannot be "undone" retroactively.

III. Background

The Agency provides financing and programs for individuals within specified income ranges, to assist first time homebuyers in obtaining affordable housing. The Agency was chartered primarily to make below market-rate loans through the sale of tax-exempt bonds. It was structured to be independent from the state and attract the experienced individuals necessary to operate this type of agency.

The Agency's budget is not part of the State budget and the State is not liable for the Agency's obligations. *Health and Safety Code* § 51374.[1] The Agency has sole control of its funds, and the expenditure of funds is not subject to the supervision or approval of the State. *Health and Safety Code* § 51000. The Agency is completely self-supporting, and the bonds are repaid by revenue generated through mortgage loans. Part

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[1] That section provides as follows, in part: "Bonds issued under the provisions of this part shall not be deemed to constitute a debt or liability of the state ... but shall be payable solely from funds herein provided therefore. ... The issuance of bonds under the provisions of this part shall not directly or indirectly or contingently obligate the state ... to levy or to pledge any form of taxation whatever therefore or to make any appropriation for their payment.

of the Agency's ability to be self-supporting (and in fact, profitable) arises out of its high credit quality.

As noted in Orrick, Herrington & Sutcliffe LLP's February 5, 2007 correspondence regarding proposed legislation to amend Health and Safety Code section 50909[2], the Agency's high credit quality is due, in part, to investor and rating agency confidence in the qualifications and abilities of the management of the Agency. Specifically, the ability of the Agency to "meet its duties to bondholders, to maintain its high credit rating, and to manage the risk of complex real estate finance transactions," which in turn is dependent upon the Agency's ability to "attract and retain key executive management over the long term."

Obviously, one of the key elements to attracting and retaining management personnel is the compensation package the Agency offers. If the Agency were like most state agencies, its hands would be tied, and the Department of Personnel Administration ("DPA") would have the authority to approve the compensation packages offered by the Agency. Pursuant to the 1981 enactment of Government Code section 19816, the DPA succeeded to and became vested with the duties, purposes, responsibilities, and jurisdiction previously exercised by the State Personnel Board and the Department of Finance, with respect to the administration of salaries, including the salaries of employees exempt from civil service. *Government Code* § 19816.

Government Code section 19825 vests DPA with further powers regarding the setting of salaries, as follows:

> Notwithstanding any other provision of law, whenever any state agency is authorized ... to fix the salary or compensation of any

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[2] We have not had an opportunity to review the proposed legislation referred to in this February 5, 2007 letter. However, based on our reading of this letter, we understand that the proposed legislation would rescind the power of the Board to establish the salaries of the Executive Director and Chief Deputy Director and subject the Agency's salary surveys to the approval of another state department.

Although we are not relying on this proposed legislation in our analysis, the fact that legislation is being proposed to amend Health and Safety Code section 50909 to divest the Board of its authority with respect to setting the salaries of these two positions certainly seems to imply that the Board currently has such authority.

> employee or officer, which salary is payable in whole or in part out of state funds, the salary is subject only to the approval of the department [DPA] before it becomes effective and payable … The Legislature may expressly provide that approval of the department is not required.

These sections provide DPA with the authority to set and administer the salaries of most state employees, including most management level employees working for state agencies, except when otherwise provided by the Legislature.

The statutes governing the Agency carve out authority for the Agency with regard to setting salaries. Health and Safety Code section 50908 provides:

> Except as provided in this part, the **Board** shall from time to time determine the authorized number of employees within the Agency, and **shall determine the salaries** of those employees of the Agency **whose salaries are not paid from monies appropriated to the Agency from the general fund.**

(Emphasis added).

However, a 1987 Attorney General opinion discussed this section and found that the Board did not have the authority to "establish the salaries of its employees without the approval of the Department of Personnel Administration." Opinion 86-702, 70 Ops. Cal. Atty. Gen. 98 (1987). This opinion was based in part on the fact that Government Code sections 19816 and 19825 were enacted subsequent to Health and Safety Code section 50908, thus Health and Safety Code section 50908 was not considered as an express exception to the more recently enacted statutes.[3]

In 2006, as part of SB 257, Health and Safety Code section 50909 was amended, and now reads as follows:

> (a) Notwithstanding Sections 19816 and 19825 of the Government Code, the **compensation of key exempt**

---

[3] The other primary basis, as will be discussed herein, was the Attorney General's conclusion that the salaries paid by the Agency were paid out of public funds, and thus not subject to the Board's authority under Health and Safety Code section 50908.

> **management, including the executive director, the chief deputy director**, the general counsel, the director of financing, the director of homeownership programs, the director of multifamily programs, the director of insurance and the financial risk management director **shall be established by the board** in the agency's annual budget, in amounts which are reasonably necessary, **in the discretion of the board**, to attract and hold a person of superior qualifications.
>
> (b) (1) To determine the compensation for the positions described in this section, **the agency shall cause to be conducted**, through the use of independent outside advisors, salary surveys of both of the following:
>
> (A) Other state and local housing finance agencies that are most comparable to CalHFA.
>
> (B) Other relevant labor pools.
>
> (2) **The salaries so set by the board** shall not exceed the highest comparable salary for a position of that type, as determined by the survey.
>
> (c) **The Department of Personnel Administration shall review the methodology used** in these salary surveys.

(Emphasis added).

By letter dated October 26, 2006, the Agency sent information to the DPA summarizing the Agency's compensation survey methodology, and soliciting input. The DPA responded by letter dated November 13, 2006, thanking the Agency for the information and the opportunity to respond. Ultimately, DPA "recommend[ed] including" a list of additional queries in the salary survey. In response, as discussed in the Agency's November 30, 2007 letter to the DPA, the Agency met with the independent consultant (Watson Wyatt) used to conduct the salary survey, to discuss the DPA's suggestions.

On January 9, 2007, the Compensation Committee of the Board met to discuss the December 11, 2006 Watson Wyatt Salary Survey in preparation for making salary recommendations to the full Board. At this meeting, Chairman Courson noted that pending action at the full Board meeting on January 18, 2007, the salaries actually approved by the Board would be adjusted back to January 1, 2007. By the conclusion of the meeting, the Committee had agreed upon certain salary tiers that it would recommend to the full Board.

On January 18, 2007, the full Board passed Resolutions 07-06 and 07-07, which approved 2007 Exempt Salary Ranges and specific Exempt Manager Salaries in the Revised 2006-2007 Budget. Subsequently, in March of 2007, the Board passed two additional resolutions. One of these resolutions reduced the ranges set forth in Resolution 07-06, to cap the salaries at approximately 5% over the midpoint. The second March resolution reset the Executive Director's salary to $175,000 (from $200,000), at the Executive Director's request.

Finally, at the end of March, the Governor's office signed and DPA processed/issued pay letters for 6 of the exempt positions at issue here.[4] The only three positions excluded were the Executive Director, the Chief Deputy, and the Director of IT.

IV. Discussion

First, we note that this opinion does not address in any detail the primary issues addressed in the memoranda dated February 5, 2007 and July 14, 2003 from Orrick, Herrington & Sutcliffe LLP, to the California Housing Finance Agency. Those memoranda focused primarily on the risks to the Agency if the DPA were permitted to set salaries of key exempt management personnel, as well as an attempt by the DPA to control Agency staffing.

Although we agree with the rationale and many of the conclusions set forth in those memoranda, the issues discussed there did not directly address the questions posed to our firm, with respect to the setting of salaries and the vesting of rights with respect to those salaries.

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[4] One of the positions, the Legislative Director, received an increase without the necessity of a pay letter, as DPA had previously approved a higher salary range for that position. However, the discussion and arguments set forth in this letter would apply equally to the Legislative Director position had that position not been previously approved for a higher salary range. The same is true for the six exempt positions, had they not received the pay letters.

As cited above, Government Code sections 19816 and 19825 discuss the general authority of DPA with respect to the setting and administration of salaries. However, Government Code section 19825, provides that the DPA has authority over salaries **unless** no part of the salary in question is paid from "state funds", **or** the Legislature has clearly provided that DPA approval is not needed. Although only one of these exceptions is required, we believe the salaries in question here meet both criteria.

A. Use of Monies Appropriated to the Agency from the General Fund

Health and Safety Code section 50908 provides that the Board "shall determine the salaries of those employees of the Agency whose salaries are not paid from monies appropriated to the Agency from the general fund."

A 1987 Attorney General opinion limited the applicability of this section and found that the Board does not have the authority to "establish the salaries of its employees without the approval of the Department of Personnel Administration." Opinion 86-702, 70 Ops. Cal. Atty. Gen. 98 (1987). Although this decision completely contradicted an informal opinion issued by the Attorney General less than a year prior, this April 15, 1987 opinion found that Health and Safety Code section 50908 did not exempt the Agency from the powers of the DPA.

The 1987 Attorney General opinion attempted to nullify the impact of Health and Safety Code section 50908 by concluding that the Agency was using public funds to pay employee salaries. Opinion 86-702, 70 Ops. Cal. Atty. Gen. 98 (1987). This was based primarily on the fact that the Secretary of the Business and Transportation Agency, the Director of Finance, and the Joint Legislative Budget Committee is to **review** the Agency's preliminary budget. *Health and Safety Code* § 50913. The opinion simply assumes, without support, that an entitlement to "review" the Agency's preliminary budget converts the Agency's funds into public funds. Even if these agencies were required to "review and approve" the Agency's budget, such authority would not necessarily convert the Agency's funds into public funds.

However, this section does not require approval from these agencies. Rather, Health and Safety Code section 50913 merely provides for "review", not "approval" of the Agency's budget. This section is referenced within Health and Safety Code section 51000, which provides that expenditures "shall not be subject to the supervision or approval of any other officer or division of state government. However, the agency's budget shall be reviewed as provided in Section 50913." *Health and Safety Code* § 51000. This draws an express distinction between "supervision or approval", which are not required, and "review", which is required.

The April 1987 Attorney General opinion seems to provide authority for the proposition that Government Code section 19825 supersedes Health and Safety Code section 50908 and requires the DPA's approval for all Agency salaries except the Executive Director.[5] However, supersession only becomes an issue if the sections were in conflict. We do not believe any conflict exists between Government Code section 19825 and Health and Safety Code section 50908. Government Code section 19825 requires approval by the DPA for any salaries paid "in whole or in part out of state funds…" Health and Safety Code section 50908 provides that the Board has authority to determine the salaries of those employees whose salaries are not paid from state funds.

The issue, with respect to the purported conflict between Government Code section 19825 and Health and Safety Code section 50908, is whether the employee salaries at issue are paid from monies appropriated to the Agency from the General Fund. As indicated previously, the Agency is entirely self-supporting, and the salaries it pays its employees come out of the funds generated from the bonds issued by the Agency, not from the General Fund.

The purpose of Health and Safety Code section 51000 is to ensure that the Agency's funds are not subject to state control, while Health and Safety Code section 51374 guarantees that the state would not have any liability for debts or obligations of the Agency.

In *California Educational Facilities Authority v. Priest* (1974) 12 Cal.3d 693, the California Supreme Court held that revenue bonds did not constitute public money.[6]

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[5] Even this flawed opinion recognizes an exception to the DPA's authority with respect to the Agency's power to set the salary of its Executive Director.

[6] Government Code section 19825 discusses the authority of DPA with respect to salaries "payable in whole or in part out of state funds", while Health and Safety Code section 50908 permits the Board to determine salaries of those employees of the Agency whose salaries are not paid from "monies appropriated to the Agency from the general fund."

The ruling was based on the fact that (like the Agency's bonds) the bonds issued by the California Educational Facilities Authority were not a liability of the state, and no state funds would support the repayment of the bonds.

In 1983, the Attorney General analyzed the issue of whether the California Educational Facilities Authority ("CEFA") may issue tax-exempt bonds to loan monies raised from those bonds to the University of Judaism, so that the University could refinance an existing loan that was used to build classroom and administration facilities. Opinion 82-509, 66 Ops. Cal. Atty. Gen. 50 (1983). The opinion focused on a number of Constitutional issues, however, the opinion is relevant because the Attorney General analyzed the impact of the *California Educational Facilities Authority* case[7] and determined that "the monies for the loans are not public funds derived from general taxation but rather come from specially floated bond issues ... The bonds do not constitute public monies and the loans made therefrom are not expenditures from public funds ... or a pledge of the state's credit ... Opinion 82-509, 66 Ops. Cal. Atty. Gen. 50, at 58, fn. 10 (1983). The Attorney General based this determination on the fact that the California Educational Facilities Authority, like the Agency, raised tax-exempt capital from bond issuance to make loans at rates below those of the taxable market.

Like the bond proceeds in the *California Educational Facilities Authority* case, the bond proceeds raised by the Agency, and used to pay the salaries at issue, cannot constitute "public funds" or the more narrow category of "monies appropriated to the Agency from the General Fund.

DPA, should it challenge this conclusion, would likely rely upon the case of *Westly v. California Public Employees' Retirement System Board of Administration* (2003) 105 Cal.App.4th 1095. In *Westly*, the state Controller brought an action against CalPERS, challenging (among other things) CalPERS' assertion of authority to set salaries for its own employees. The Court held, in part, that CalPERS did not have the

---

Although we recognize there is a difference between "state" or "public" funds on the one hand, and "monies appropriated to the Agency from the general fund" on the other, the decision in *California Educational Facilities Authority*, found that revenue bonds did not even fall within the broader category of "public money". Thus, they could not fall within the more narrow category of monies appropriated to the Agency from the general fund.

[7] *California Educational Facilities Authority v. Priest* (1974) 12 Cal.3d 693

authority to set the salaries of its employees. However, there are some critical differences between the facts of the *Westly* case, and the facts of the situation here.

The primary distinction is that in *Westly*, the funds at issue originated from the State General Fund, and that CalPERS retirement benefits are contractual obligations of the State. Unlike the State's obligations with respect to CalPERS retirement benefits, Health and Safety Code section 51374 expressly provides that the State has no obligation or liability with respect to the bonds issued by the Agency. Further, unlike CalPERS, Agency funds do not originate, and are not derived from state general funds. Rather, these funds are solely the proceeds of bonds for which the State is not liable.

Thus, while DPA may have authority over salaries that are paid out of monies appropriated to the Agency from the General Fund, the salaries at issue here are **not** paid out of monies appropriated from the General Fund, or from any other source that is properly considered "public funds". No logical interpretation of the statute would allow DPA authority over salaries that are not paid out of state funds, as is the case with the Agency.

B. Legislative Exception to Approval of Salaries by the DPA

Government Code section 19825, together with Government Code section 19816, provides DPA with the authority to set and administer the salaries of most state employees, including most management level employees working for state agencies. As discussed above, pursuant to Government Code section 19825, DPA does not have authority over salaries that are not paid out of state funds. However, even if there were some logical interpretation under which the Agency's funds could be considered "state funds", Government Code section 19825 provides another exception to DPA's salary setting/approving authority. That section states that the Legislature "may expressly provide that approval of the department [DPA] is not required." *Government Code* § 19825.

The April 1987 Attorney General opinion, concluding that the Board did not have the authority to "establish the salaries of its employees without the approval of the Department of Personnel Administration"[8] did not take into account the current language of Health and Safety Code section 50909, as it was based on the language of the relevant

[8] Opinion 86-702, 70 Ops. Cal. Atty. Gen. 98 (1987).

statutes as they existed in 1987. At the time of the Attorney General opinion, the applicable version of Health and Safety Code section 50909, was the version that had been amended in 1983 to provide that the "compensation of the executive director shall be established by the board in an amount which is reasonably necessary, in the discretion of the board..." Since the question before the Attorney General in 1987 did not involve the compensation of the executive director, the version of Health and Safety Code section 50909 then in effect was not relevant.

However, the subsequent actions by the Legislature, in amending Health and Safety Code section 50909, provides a basis for disregarding that opinion, with respect to the setting of the salaries now in question. In 2006, as part of SB 257, Health and Safety Code section 50909 was amended, and the Legislature provided an express exception to Government Code sections 19816 and 19825, as follows:

> (a) Notwithstanding Sections 19816 and 19825 of the Government Code, the compensation of key exempt management, including the executive director, the chief deputy director, [and] the general counsel, ... shall be established by the board ... in amounts which are reasonably necessary, in the discretion of the board ...
>
> (b) (1) ... [T]he agency shall cause to be conducted, through the use of independent outside advisors, salary surveys ...
>
> (2) The salaries so set by the board ...
>
> (c) The Department of Personnel Administration shall review the methodology used in these salary surveys.

Health and Safety Code § 50909.

Government Code section 19825 stated that the Legislature could "expressly provide that approval of [DPA] is not required." We believe the language of Health and Safety Code section 50909 is such an express provision. DPA could argue that nothing in Health and Safety Code section 50909 states: "approval of DPA is not required." On its face, this is correct. However, the sections must be looked at in context.

Subsequent to the enactment of Government Code section 19825, providing that the Legislature could carve out situations where DPA approval is not required, the Legislature enacted (and later amended) Health and Safety Code section 50909. This section specifically referenced the requirements of Government Code sections 19816 and 19825, and provided that "[n]otwithstanding" those sections, "compensation of key exempt management … shall be established by the board … in the discretion of the board" and that DPA shall "review the methodology used" in the salary surveys conducted by the Agency.

By acknowledging the restrictions of the Government Code, and then providing that "[n]otwithstanding" those sections, the Board "shall" establish the salaries of "key exempt management, including" a number of specifically named key exempt management employees, the Legislature removed any ambiguity that it was expressly providing that approval of DPA was not required.

In section 50909, the Legislature went on to discuss the methods and criteria that the Board should use in exercising its discretion. Specifically, the Legislature requires the Board to "cause to be conducted … salary surveys of … other state and local housing finance agencies … most comparable to CalHFA" as well as "other relevant labor pools." The Legislature also required that the salaries "set by the board shall not exceed the highest comparable salary for a position of that type, as determined by the survey." Although this language imposed by the Legislature limited the discretion of the board in setting the salaries, it clearly granted the authority to set those salaries (at least with respect to the specified positions) to the board. *Health and Safety Code* § 50909(b).

Section 50909 also expressly provides that DPA has the power to "review the methodology used" in the salary surveys which the agency "caused to be conducted." *Health and Safety Code* § 50909(c). The grant of such limited power, especially in the context of a section that expressly seeks to provide an exception to Government Code sections 19816 and 19825, necessarily implies the absence of any greater power.

Based on the foregoing, we believe that both the language of the relevant statutes, as well as the intent of the Legislature, was to carve out an exception to Government Code sections 19816 and 19825, and permit the Board to set the salaries for key exempt management, without the approval of DPA.

Next, our attention is turned to the one remaining position that is at issue, but not expressly listed in Health and Safety Code section 50909 – the Director of IT.

The maxim of legislative interpretation, *expressio unius est exclusio alterius* (the expression of one is the exclusion of all others), provides that if a statute contains a list of express exceptions, it will be presumed that no other exceptions were intended. *In re Pardue's Estate* (1937) 22 Cal.App.2d 178; *People ex rel. Cranston v. Bonelli* (1971) 15 Cal.App.3d 129; *See also* 58 Cal. Jur. 3d, §130. This could work against the Agency in an eventual writ proceeding, as Health and Safety Code section 50909 could be interpreted as an exhaustive list of exceptions with respect to the Board's ability to establish salaries, exclusive of any DPA authority. If that were the case, then the Board would not have any authority to establish the salary of the Director of IT.

However, sometimes a list in a statute is illustrative, not exclusionary. This is generally indicated by a word such as "includes". Such is the case here, where the key language is as follows:

> ...[T]he compensation of key exempt management, including the executive director, the chief deputy director, the general counsel ... and the financial risk management director shall be established by the board...

Health and Safety Code § 50909(a).

Here, the statute provides that the board is authorized to establish compensation for "key exempt management." The meaning of the term "key exempt management" is then illustrated by reference to several of the positions included within that term. This brings us to another maxim of legislative interpretation, *ejusdem generis* (of the same kinds, class, or nature). Where general words follow an enumeration of specific items (or vice versa), the general words are read as applying to other items akin to those specifically enumerated. Although this maxim restricts the application of general terms, by requiring that the general terms be interpreted as applicable only to the same general nature or class as those enumerated,[9] it also instructs that the general term or category will be interpreted to include those things that are similar to those which are enumerated specifically. *Pour Le Bebe, Inc. v. Guess? Inc.* (2003) 112 Cal.App.4th 810.

For example, if a law refered to "cars, trucks, tractors, motorcycles and other similar motor-powered vehicles," the principle of *ejusdem generis* would lead to the conclusion that the list would include SUV's, even though they were not expressly mentioned, but might not include airplanes, since the list was of land-based transportation.

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[9] *Scally v. Pacific Gas & Electric Co.* (1972) 23 Cal.App.3d 806.

In the instant case, the list in Health and Safety Code section 50909(a), which is intended to describe the authority of the Board to set compensation for "key exempt management," provides a list of some key exempt management. However, this list should be interpreted as illustrative, not exclusive. Thus, any Agency employee who can be considered "key exempt management" is subject to the Board's authority for setting compensation.

We understand that when Health and Safety Code section 50909 was drafted, it was with the knowledge that the Agency had the need and the ability to create exempt positions, and that the list of those positions may change over time. The use of the phrase, "key exempt management, including…" was meant to recognize that from time to time, the positions that meet the criteria for "key exempt management" might be added or eliminated, as the needs of the Agency change. Based on the foregoing, we believe this section is properly interpreted to provide that if the Board determines a certain exempt position is a "key exempt management" position, Health and Safety Code section 50909 authorizes the Board to set the salary for that position.

A determination as to which classifications and employees can and should be considered "key exempt management" is beyond the scope of this memorandum. However, we believe the director of any Department within the Agency would likely meet any rational criteria established for who constitutes "key exempt management."

The language of section 50909 clearly provides that the Board, and only the Board, is charged with the responsibility for setting the salaries for certain key exempt management positions, including the executive director and chief deputy director, among those specifically referenced (the Director of IT is not specifically referenced). Although DPA is to review the methodology used in the salary surveys, nothing in the section gives DPA any authority over the setting of salaries.

Thus, under our analysis, once the Board makes a decision regarding the setting of salaries, no further review or approval is necessary. All that is left is the purely ministerial action by the Controller of implementing those increases enacted by the Board.

C. Once the Board Passes a Resolution Authorizing Salary Increases as of a Date Certain, the Employees at Issue Here Obtain a Vested Right to those Salary Increases; Any Decreases May Only be Implemented Prospectively

California courts have specifically ruled that retroactive raises do not represent unearned payments for past services – they are considered a part of the compensation earned as the services were rendered. *San Joaquin County Employees' Assn., Inc. v. County of San Joaquin* (1974) 39 Cal.App.3d 83; *Goleta Educators Assn. v. Dall'Armi* (1977) 68 Cal.App.3d 830. Both of these Court of Appeal decisions were expressly approved and relied on in *Jarvis v. Cory* (1980) 28 Cal.3d 562, 570-572. Thus, nothing would prohibit a public employer from granting retroactive salary increases. The same cannot be said, however, for retroactive decreases in salary.

Public employment is typically held by statute, not by contract. However, public employment may give rise to obligations regarding compensation treated as contractual under the contract clauses of the federal and state Constitutions. *White v. Davis* (2002) 108 Cal.App.4th 197. "[P]ublic employment gives rise to certain obligations which are protected by the contract clause of the Constitution…" *Kern v. City of Long Beach* (1947) 29 Cal.2d 848, 852-853. Vested compensation constitutes property that may not be divested without due process. *Boothby v. Atlas Mechanical, Inc.* (1992) 6 Cal.App.4th 1595, 1602-1603. "Once vested, the right of compensation cannot be eliminated without unconstitutionally impairing the contact obligation. When agreements of employment between the state and public employees have been adopted by governing bodies, such agreements are binding and constitutionally protected." *Olson v. Cory* (1980) 27 Cal.3d 532 (internal citations omitted).

A public employee's right to the payment of salary earned is thus protected by the impairment-of-contract clause of the state constitution. *White v. Davis* (2003) 30 Cal.4th 528. Once the right to compensation becomes vested, the state cannot retroactively eliminate or reduce that vested right to compensation. However, the question is whether and at what point the right becomes vested.

The language of Health and Safety Code section 50909 clearly provides that the Board, and only the Board, is charged with the responsibility for setting the salaries for certain key exempt management positions, including the executive director and chief deputy director, among those specifically referenced (the Director of IT is not specifically referenced). Although DPA is to review the methodology used in the salary surveys, nothing in the section gives DPA any authority over the setting of salaries.

Thus, under our analysis, once the Board makes a decision regarding the setting of salaries, no further review or approval is necessary. All that is left is the purely ministerial action by the Controller of implementing those increases enacted by the Board.

Once the Board approves salary increases (by way of Resolution), a contract right is created, the benefit becomes vested immediately, and all other actions necessary to implement the increases are merely ministerial in nature. Any services rendered pursuant to the Board's approval of such increases must be compensated at the increased rate, while any efforts to decrease compensation could be implemented on a prospective basis only.

The United States Supreme Court, dealing with a lawsuit brought by an attorney to recover for salary and fees due to him, based upon his service as a District Attorney, has recognized that once services have been rendered by a public officer for a fixed rate of compensation, there arises an implied contract which is fully protected by the contract clause:

> … [A]fter the services have been rendered, under a law, resolution, or ordinance which fixes the rate of compensation, there arises an implied contract to pay for those services at that rate. This contract is a completed contract. Its obligation is perfect, and rests on the remedies which the law then gives for its enforcement. The vice of the argument of the Supreme Court of Louisiana is in limiting the protecting power of the constitutional provisions against impairing the obligation of contracts to express contracts, to specific agreements, and in rejecting that much larger class in which one party having delivered property, paid money, rendered service, or suffered loss at the request of or for the use of another, the law completes the contract by implying an obligation on the part of the latter to make compensation. This obligation can no more be impaired by a law of the State than that arising on a promissory note.

Fisk v. Jefferson Policy Jury (1885) 116 U.S. 131, 134.

Similarly, a 1978 Attorney General opinion provided that while county boards of education have the power to decrease superintendents' salaries, they may not do so retroactively. This was based on the fundamental proposition that compensation may not be decreased with respect to services already rendered. Opinion 77-180, *61 Ops. Cal. Atty. Gen. 384* (1978).

Finally, in *Sonoma County Organization of Public Employees v. County of Sonoma* (1979) 23 Cal.3d 296, the Court invalidated the portions of a state statute that purported to invalidate agreements granting cost-of-living wage increases to local public agency employees, as the statute was invalid as an impairment of contract in violation of both the state and federal Constitutions. *Id.* at 305 – 308. Although the Court did not preclude the possibility of circumstances under which public contracts may be impaired, such impairment must be justified by an overriding public purpose. *Id.* at 308.

Based on the foregoing, we believe it is clear, that at least with respect to those "key exempt management" expressly listed in Health and Safety Code section 50909, the vested right to increased salary cannot be undone retroactively, and attempts to do so would be an impermissible impairment of contract rights.

We hope that you find this correspondence responsive to the questions set forth above. Should you require further research and/or analysis, please do not hesitate to contact us.

Sincerely,

CARROLL, BURDICK & McDONOUGH LLP

Gary M. Messing
Jason H. Jasmine

cc: Theresa Parker
Thomas Hughes

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State of California

MEMORANDUM

To: Board of Directors **Date:** May 10, 2007

From: Tom Hughes, General Counsel
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Updates to CalHFA's Conflict of Interest Code (Resolution 07-17)

California's Political Reform Act of 1974 (the "Act") requires that each state agency enact by regulation a conflict of interest code pursuant to standards set forth in the Act. CalHFA has enacted such regulation, at Title 25, Code of California Regulations, Section 10001. The Act further requires that the regulation be updated periodically. The proposed amendment text presented to the Board is intended to be such an update.

The Agency's conflict of interest code (the "Code") designates personnel positions within the Agency which are required to annually file a Statement of Economic Interests (Form 700). The Code also specifies the types of business interests or sources of incomes that must be reported.

The types of positions within the Agency which are required to file the Form 700 are generally Board positions, management positions, and consultants. In addition, employees holding staff positions which directly interact with and influence those decision makers are also covered by the Code. As personnel classifications and titles change over time, the Code must be updated to accurately reflect the nature of those changes.

The proposed amended Code includes new positions and revises the titles of existing positions. Proposed deletions/additions are shown in strikeout/underline format as follows: deletions are in ~~red strikeout~~ font, and additions are in <u>blue underline</u> font.

Updates to CalHFA's conflict of interest code are subject to the rulemaking process, which includes: public notice, public comment period, and public hearing (if requested); review and approval by Fair Political Practices Commission; submission to Office of Administrative Law; and, certification by Secretary of State.

We respectfully request the Board's approval of the within proposed updates to CalHFA's conflict of interest code, and authorization to proceed with the rulemaking process, including authorization to make non-material revisions to the proposed amendment text, without further Board approval, as may be appropriate.

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CALIFORNIA CODE OF REGULATIONS

TITLE 25. Housing And Community Development

Division 2. California Housing Finance Agency

Chapter 1. General

Article 1. Conflict of Interest Code

§10001. General Provisions.

Amend Section 10001 to read as follows:

§10001. General Provisions.

The Political Reform Act, Government Code sections 81000, et seq., requires state and local government agencies to adopt and promulgate Conflict of Interest Codes. The Fair Political Practices Commission has adopted a regulation, 2 California Code of Regulations section 18730, which contains the terms of a standard Conflict of Interest Code, which can be incorporated by reference, and which may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act after public notice and hearings. Therefore, the terms of 2 California Code of Regulations section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission, along with the attached Appendix in which officials and employees are designated and disclosure categories are set forth, are hereby incorporated by reference and constitute the Conflict of Interest Code of the California Housing Finance Agency (the Agency).

Designated employees shall file statements of economic interests with the Agency, which will make the statements available for public inspection and reproduction. (Govt. Code Section 81008). Upon receipt of the statements of Board Members and the Executive Director, the Agency shall make and retain a copy and forward the original of these statements to the Fair Political Practices Commission. Statements for all other designated employees will be retained by the Agency.

NOTE

Authority cited: Sections 87300 and 87304, Government Code. Reference: Sections 87300, et seq., Government Code.

HISTORY

1. Repealer of chapter 1 (article 1, sections 10001-10006) and new chapter 1 (article 1, sections 10001-10011) filed 8-12-77; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 4-20-77 (Register 77, No. 37). For prior history, see Registers 75, No. 49; and 76, No. 20.

2. Repealer of article 1 (sections 10001-10011 and Exhibits A and B) and new article 1 (section 10001 and Appendix) filed 2-26-81; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 12-1-80 (Register 81, No. 9).

3. Amendment of Appendix filed 6-14-84; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 5-7-84 (Register 84, No. 24).

4. Amendment of Appendix refiled 10-4-84; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 5-7-84 (Register 84, No. 40).

5. Amendment of section 10001 and Appendix filed 1-30-91; operative 3-1-91. Approved by Fair Political Practices Commission 12-6-90 (Register 91, No. 14).

6. Amendment of section and Appendix filed 4-18-96; operative 5-18-96. Approved by Fair Political Practices Commission 2-8-96 (Register 96, No. 16).

7. Amendment of section and Appendix filed 7-28-97; operative 8-27-97. Approved by Fair Political Practices Commission 6-4-97 (Register 97, No. 31).

8. Amendment of section and Appendix filed 2-7-2006; operative 3-9-2006. Approved by Fair Political Practices Commission 12-16-2005 (Register 2006, No. 6).

Conflict of Interest Code of the California Housing Finance Agency

Appendix

Designated Employees	*Assigned Disclosure Category*
Persons holding the following positions and/or the following classifications are "designated employees":	
Board of Directors	
Board Member (All members of the Board other than the State Treasurer)	1, 2, 3
Executive	
Executive Director	1, 2, 3
Chief Deputy Director	1, 2, 3
Director of Legislation	1, 2, 3
Administration	
Director of Administration	1, 2, 3
Chief of Administrative Services	1, 2, 3
Staff Services Manager I (Business Services)	3
~~Business Services Officer~~ Associate Business Management Analyst (Business Services)	3
Staff Services Analyst (Business Services)	3
Information Technology	
Chief Information Officer	2, 3
Staff Information Systems Analyst (Specialist) (Systems Administration)	3
Senior Information Systems Analyst (Supervisor)	3
Senior Programmer Analyst (Supervisor)	3

Marketing
Director of Marketing (Staff Services Manager III) 1, 2, 3

Legal
General Counsel 1, 2, 3
Staff Counsel IV 1, 2, 3
Staff Counsel III 1, 2, 3
Staff Counsel 1, 2, 3
<u>Information Security Officer . . . . 2, 3</u>

Financing
Director of Financing 1, 2, 3
~~Risk Manager~~ <u>Director of Financial Risk Management</u> 1, 2, 3
Housing Finance Chief (Financing) 1, 2, 3
Financing Officer 1, 2, 3
Financing Specialist 1, 2, 3

Fiscal Services
Comptroller 1, 2, 3
Accounting Administrator III 1, 2, 3
Accounting Administrator II 3
Housing Finance Officer (Single Family) 1, 2, 3
Housing Finance Specialist (Single Family) 1, 2, 3

Homeownership
Director of Homeownership 1, 2, 3
<u>Deputy Director of Homeownership Programs . . . . 1, 2, 3</u>
Housing Finance Chief (Single Family) 1, 2, 3
Housing Finance Officer (Single Family) 1, 2, 3
Housing Finance Specialist (Single Family) 1, 2, 3

Multifamily
Director of Multifamily Programs 1, 2, 3
Deputy Program Director (Rental) 1, 2, 3
Housing Finance Chief (Rental) 1, 2, 3
Housing Finance Chief (Construction Services) 1, 2, 3
Supervising Design Officer 1, 2, 3
Senior Design Officer 1, 2, 3
Senior Estimator 1, 2, 3
Senior Housing Construction Inspector 1, 2, 3
Housing Construction Inspector 1, 2, 3
Housing Finance Officer (Rental) 1, 2, 3
Housing Finance Officer (Construction Services) 1, 2, 3
Housing Finance Specialist (Rental) (Preservation Assistance) 1, 2, 3
Housing Finance Specialist (Construction Services) 1, 2, 3
Chief, Special Lending Programs (CEA II) 1, 2, 3

Asset Management
Deputy Director of Asset Management 1, 2, 3
Housing Finance Chief (Management Services) 1, 2, 3
Housing Finance Officer (Management Services) 1, 2, 3

Housing Finance Specialist (Management Services) 1, 2, 3
Housing Maintenance Inspector 1, 2, 3

Mortgage Insurance Services
Director of Insurance 1, 2, 3
Housing Finance Chief (Single Family) 1, 2, 3
Housing Finance Officer (Single Family) 1, 2, 3
Housing Finance Specialist (Single Family) 1, 2, 3

Consultants
Consultant 1, 2, 3

With respect to Consultants, the General Counsel of the Agency may determine in writing that a particular consultant, although a "designated employee," is hired to perform a range of duties that is limited in scope and thus is not required to comply with the disclosure requirements described in this section. Such determination shall include a description of the consultant's duties and, based upon that description, a statement of the extent of disclosure requirements. A copy of the written determination is a public record and shall be retained and made available for public inspection in the same manner and location as this Conflict of Interest Code. Nothing herein excuses any such consultant from any other provision of this Conflict of Interest Code.

Disclosure Categories

Category 1

Designated employees in Category 1 must report:
All investments and interests in real property located within the State of California.

Category 2

Designated employees in Category 2 must report:
All investments and business positions in, and sources of income, including gifts, loans, and travel payments, from, any person or entity which is (i) defined to be a "housing sponsor," "limited-dividend housing sponsor," or "qualified mortgage lender" by part I, chapter 2, of the Zenovich-Moscone-Chacon Housing and Home Finance Act (chapter 2 commences at section 50050 of the California Health and Safety Code) or which is (ii) a financial services company, information technology company, law firm, mortgage bank, investment bank, real estate services company, brokerage company, insurance company, title company, escrow company, building or construction contractor or subcontractor, that contracts with or otherwise does business with the Agency, or which is soliciting, a contract or other business from the Agency.

Category 3

Designated employees in Category 3 must report:
All sources of income, including gifts, loans, and travel payments, from and investments and business positions in any business entity that, within the last two years, has contracted with the Agency to provide services, supplies, materials, machinery or equipment to the Agency, or that has otherwise done business with the Agency.

RESOLUTION 07-17

RESOLUTION APPROVING PROPOSED AMENDMENTS TO REGULATIONS

WHEREAS, the California Housing Finance Agency (the "Agency") through its Board of Directors (the "Board") is authorized to adopt and, where appropriate, to amend or repeal regulations; and

WHEREAS, the Board has determined that the proposed amendments to certain Agency regulations, as attached hereto, are necessary and appropriate for adoption by the Agency,

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

1. The attached amendments to the Agency's regulations, incorporated herein by reference, concerning Title 25, Division 2, Chapter 1, Article 1, § 10001 of the California Code of Regulations (the Conflict of Interest Code of the Agency) are hereby approved.

2. The staff is directed to give public notice, conduct any required public hearing and take such other action as may be necessary or proper for the adoption by the Agency of such amended regulations including submission of such amendments to the Fair Political Practices Commission and the Office of Administrative Law. The staff is authorized to make non-material revisions to these amendments, without further Board approval, as may be appropriate in the course of promulgating these amendments.

I hereby certify that this is a true and correct copy of Resolution 07-17 adopted at a duly constituted meeting of the Board of Directors of the Agency held on May 10, 2007, at Burbank, California.

ATTEST: ______________________
Secretary

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MEMORANDUM

MAR 05 2007

TO: **JOHN COURSON, CHAIRMAN OF THE BOARD OF DIRECTORS OF THE CALIFORNIA HOUSING FINANCE AGENCY ("CalHFA"), AND TO ALL OTHER MEMBERS OF THE BOARD**
FROM: COALITION OF CONCERNED CalHFA EMPLOYEES ("CCCE")
RE: **EXECUTIVE COMPENSATION – OUTRAGEOUS PAY RAISE** APPROVED FOR CalHFA's EXECUTIVE DIRECTOR, TERRI PARKER
DATE: MARCH 2, 2007

The CCCE is pleased to see that you have a "possible" agenda item for the upcoming Board meeting of March 8, 2007, to discuss the spectacular, unwarranted and outrageous salary raise previously adopted by the Board. We urge you to discuss the matter in detail, and make the issue an actual agenda item.

As was put best by the Los Angeles Daily News, Ms. Parker ("TP") was given a "massive – and unwarranted – pay hike". Importantly, the newspaper noted, "the state had no problem retaining Parker [TP] for nine years without jacking up her pay spectacularly".

We in the CCCE have a number of questions for you and/or the Board as a whole. They include the following:

1. What was the urgency to your salary action? Why could your "generosity" to TP not wait?
2. Why did you not read and consider the Governor's signing message for Senate Bill 257, which we provided to you, prior to this salary giveaway to a political careerist?
3. Did you (John Courson) want to curry favor with TP before you ceased operating and closed Central Pacific Mortgage effective as of February 26, 2007 (without sufficient funds to pay your employees)?
4. Was the Board informed that you (Mr. Courson) had had discussions with TP about Central Pacific Mortgage becoming the exclusive originator of the 35 and 40 year CalHFA loans? For your information, TP mentioned this to some of her senior staff.
5. Was the Board informed about the volume of Central Pacific's CalHFA business?
6. Have you and/or the Board had a recent training on conflicts of interest and what makes an "interested" Director? You helped design the 35 and 40 year loans and benefited financially from the same. Also, Mr. Shine prevailed upon TP (and she was only too happy to accommodate) to purchase Habitat loans under the specially created Habitat for Humanity Loan Purchase Program, since he is on a Habitat board. Who on the Board is acting in the best interests of CalHFA???
7. Do the other "interested", as well as the "non-interested", Board members know and understand that they are to discharge their duties with care, skill, prudence and diligence?
8. Did the salary survey conducted by Watson-Wyatt Worldwide include a consideration of the generous CalPERS retirement and healthcare benefits in California?

9. Did TP inform you that many of the other salaries to which she compared hers do not include government benefits?
10. Did TP discuss with the Board the theft of millions of dollars by her former Director of Insurance, right under her nose, all because of her inept, childish, and incompetent style of management? TP thought that his cohort, CalHFA's former general counsel, had political connections and therefore did not make appropriate inquiries. Why don't you understand the magnitude of TP's ineptness and misconduct, and the extensive harm she has caused the agency?
11. Did TP inform you that she filed the lawsuit to recover those moneys in Orange County to hide the massiveness of the issue from the media, the Board and the Legislature? Millions of dollars were spent litigating the case in that geographical location.
12. Did you speak with employees of CalHFA about TP's incompetence, lack of knowledge and immaturity? For your edification, Senator John Seymour was probably the most competent and respected Executive Director of the agency, followed by Maureen Higgins. TP would be tied with Karney Hodge, who was a politically connected hack who previously operated a clothing store in Fresno. At least he ran something. TP never even ran a "corner store" before her political appointment.
13. Have you examined the Genworth insurance contract, which is another giveaway of huge proportions? In executing this contract, TP essentially gutted the substance of most of the jobs in Mortgage Insurance division. The work should be done by public employees.
14. Have you probed CalHFA'a accounting practices, and the lack of any external oversight? How can you as the Board chairman and Board tolerate the weak internal controls, manufactured numbers, and the giveaway of moneys to TP, Genworth, numerous consultants, and friends of TP. While you should be watching, but are not, TP authorizes extravagant payments to third parties, money flows to Genworth, and waste abounds. All of this happens behind closed doors with few fingerprints.
15. Why don't you see that CalHFA needs immediate corrective measures and broad cultural and operational changes? The waste and mismanagement must be stopped.
16. Has the Board begun to understand that mortgage defaults by those borrowers whose paper the agency owns are beginning to spread? Do you realize that CalHFA may soon be a large owner of overpriced condominiums and worthless Multifamily projects?
17. Has the Board begun to understand that the agency has made some risky and bad loans in the Multifamily area, and that CalHFA just lends more money or restructures the loans to keep the loans off the list of non-performing loans?
18. Has the Board considered an outside audit of CalHFA? You should, since TP sits on top of a tremendous structural problem. How active is the Board audit committee? All of you, even those with a financial interest in CalHFA, are expected to exercise oversight.
19. Did you (Mr. Courson) share with the full Board how involved TP was in pushing the issue of raising her salary? It made all of us in the CCCE laugh when we read the Sacramento Bee article in which it was said that TP declined to comment on the salary hike because the salary increases "were overseen by the Board without her involvement". That is very amusing. First, she was involved. Second, TP

loves to speak with the media. In fact, much of role of the Marketing division is to place TP's quotes in the media.

20. How can the Board be imbued with a keen sense of right and wrong?
21. Do you realize how much of TP's time is spent on vacation and traveling to worthless meetings out-of-state? Do you know how few hours a week she actually works?

The Board of Directors of CalHFA owes the agency and the state sound judgement and clear thinking. Some of you may be self-interested. But the rest of you are not. We in the CCCE have patiently endured all of the mismanagement by TP, and cannot tolerate it any more. But by failing to properly oversee the agency, you become complicit in TP's mismanagement, fraud, and waste.

We will monitor what you do going forward, ask that you rescind the outrageous salary hike for TP, and will continue to write to you and others as time progresses, until TP resigns or is asked/forced to leave.

cc: Theresa Ann Parker, Executive Director
Governor Arnold Schwarzenegger
Members of the California Legislature
Members of the Media
Other Interested People

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