CalHFA BOARD OF DIRECTORS

Thursday, July 5, 2007

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

1:00 p.m.

1. Roll Call.

2. Approval of the minutes of the May 10, 2007 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action relative to final loan commitment for the following project: (Margaret Alvarez/Jim Liska/Laura Whittall-Scherfee)

NUMBER	DEVELOPMENT	LOCALITY	UNITS
97-026-N	Mercy Village Folsom Apartments	Sacramento/ Sacramento	81

Resolution 07-18.....**165**

5. Update on Bay Area Housing Plan Financing. (Kathy Weremiuk/Edwin Gipson) **213**

6. Discussion and possible action concerning Multifamily loan production and competitiveness. (Terri Parker/Laura Whittall-Scherfee/Edwin Gipson)

   a. Overview of Multifamily Lending
   b. Underwriting Requirements
   c. Rates, Yield and Financing Issues

7. Discussion, recommendation and possible action relative to the approval of a resolution approving amendments to the regulations of the Agency regarding the Conflict of Interest Code. (carryover from May Board meeting) (Tom Hughes)
   Resolution 07-17.....**219**

(OVER)

8. Report to Board on status to date of the new building strategic project, and possible action regarding such project.

9. Report of the Chairman of the Audit Committee, and discussion and possible action concerning recommendations of the Audit Committee on matters relating to compensation policies and procedures, contracting authority, and a review of anonymous letters. (Jack Shine)

10. Closed session pursuant to Government Code section 11126 (a) (1) to hear complaints or charges against an employee.

11. Reports **229**

12. Discussion of other Board matters.

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

NOTES

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

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be September 12, 2007, at the Burbank Airport Marriott, Burbank, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

--oOo--

BOARD OF DIRECTORS

PUBLIC MEETING

--oOo--

Burbank Airport Marriott Hotel & Convention Center
2500 Hollywood Way
Burbank, California

Thursday, May 10, 2007
9:31 a.m. to 1:58 p.m.

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

07/05/2007

Attest: _____

--oOo--

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

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ORIGINAL

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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A P P E A R A N C E S

Directors Present:

JOHN A. COURSON, Chairperson
President
Central Pacific Mortgage

PETER N. CAREY
President/CEO
Self-Help Enterprises

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

JEFF DAVI
for Dale E. Bonner
Secretary
Business, Transportation and Housing Agency

CAROL GALANTE
President
BRIDGE Housing Corporation

LYNN L. JACOBS
Director
Department of Housing and Community Development

JOHN G. MORRIS
President
John Morris, Inc.

THERESA A. PARKER
Executive Director
California Housing Finance Agency

WILLIAM J. PAVAO
for Bill Lockyer
State Treasurer

TERRY ROBERTS
for Cynthia Bryant
Director
Office of Planning and Research

--o0o--

CalHFA Staff Present:

MARGARET ALVAREZ
Director
Asset Management

BRUCE D. GILBERTSON
Director of Financing

EDWIN C. GIPSON, II
Chief
Multifamily Programs

THOMAS C. HUGHES
General Counsel

JIM LISKA
Loan Officer
Asset Management

CHARLES K. McMANUS
Director
Mortgage Insurance

JOJO OJIMA
Office of the General Counsel

JACKIE RILEY
Director
Administration

GERALD F. SMART
Chief
Homeownership Programs

DOUG SMOOT
Chief
Special Lending Programs

L. STEVEN SPEARS
Chief Deputy Director

KATHY WEREMIUK
Multifamily Loan Officer

LAURA WHITTALL-SCHERFEE
Chief
Multifamily Programs

Speakers from the Public:

MARDIE OAKES
Hallmark Community Services

CHUCK GARDNER
Hallmark Group

--o0o--

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1 BE IT REMEMBERED that on Thursday, May 10, 2007,
2 commencing at the hour of 9:31 a.m., at the Burbank
3 Airport Marriott Hotel and Convention Center, Gala and
4 Celebration Conference Rooms, 2500 Hollywood Way,
5 Burbank, California, before me, YVONNE K. FENNER, CSR
6 #10909, RPR, the following proceedings were held:
7 --o0o--
8 **Item 1. Roll Call**
9 CHAIRPERSON COURSON: Good morning. I will call
10 the Board meeting of the California Housing Finance
11 Agency meeting to order and ask that we call the roll.
12 MS. OJIMA: Thank you.
13 Mr. Davi for Mr. Bonner.
14 (No audible response.)
15 MS. OJIMA: Mr. Carey.
16 MR. CAREY: Here.
17 MS. OJIMA: Mr. Czuker.
18 MR. CZUKER: Here.
19 MS. OJIMA: Ms. Galante.
20 MS. GALANTE: Here.
21 MS. OJIMA: Ms. Jacobs.
22 MS. JACOBS: Here.
23 MS. OJIMA: Mr. Pavo for Mr. Lockyer.
24 MR. PAVAO: Here.
25 MS. OJIMA: Mr. Morris.

1 MR. MORRIS: Here.
2 MS. OJIMA: Mr. Shine.
3 (No audible response.)
4 MS. OJIMA: Ms. Bryant.
5 (No audible response.)
6 MS. OJIMA: Mr. Genest.
7 (No audible response.)
8 MS. OJIMA: Ms. Parker.
9 MS. PARKER: Here.
10 MS. OJIMA: Mr. Courson.
11 CHAIRPERSON COURSON: Here.
12 MS. OJIMA: We have a quorum.
13 --o0o--
14 **Item 2. Approval of the minutes of the March 8, 2007**
15 **Board of Directors meeting**
16 CHAIRPERSON COURSON: Okay. Having a quorum,
17 the first order of business is the approval of the
18 minutes from our last meeting, which was March the 8th,
19 which are in your Board binder. Is there a motion to
20 approve the minutes?
21 MS. JACOBS: So moved.
22 CHAIRPERSON COURSON: And is there a second?
23 MR. MORRIS: Second.
24 CHAIRPERSON COURSON: Mr. Morris.
25 Is there any -- discussion?

1 Mr. Pavao.

2 MR. PAVAO: I actually just had one fairly minor

3 correction on page 97, if I may.

4 CHAIRPERSON COURSON: Okay.

5 MR. PAVAO: Let's see. On line 11 it says, "And

6 so I, for one, am at least troubled." That should read

7 "least troubled, I am least troubled," not at least

8 troubled.

9 MR. MORRIS: I'm impressed that you read the

10 minutes that closely.

11 MS. JACOBS: When you get a preposition, that's

12 pretty darn good.

13 CHAIRPERSON COURSON: Duly noted and very

14 impressive, we must add from your fellow Board members.

15 Is it acceptable that the mover and the seconder

16 of the motion to approve the minutes accept that, would

17 accept that change?

18 MS. JACOBS: Yes.

19 CHAIRPERSON COURSON: No other comments?

20 If not, we'll call the roll.

21 MS. OJIMA: Thank you.

22 Mr. Carey.

23 MR. CAREY: Here -- I mean aye. Sorry.

24 MS. OJIMA: Thank you.

25

1 Mr. Czuker.

2 MR. CZUKER: Aye.

3 MS. OJIMA: Ms. Galante.

4 MS. GALANTE: Aye.

5 MS. OJIMA: Ms. Jacobs.

6 MS. JACOBS: Yes.

7 MS. OJIMA: Mr. Pavao.

8 MR. PAVAO: Yes.

9 MS. OJIMA: Mr. Morris.

10 MR. MORRIS: Yes.

11 MS. OJIMA: Mr. Courson.

12 CHAIRPERSON COURSON: Yes.

13 MS. OJIMA: The minutes have been approved.

14 CHAIRPERSON COURSON: Thank you.

15 --o0o--

16 **Item 3. Chairman/Executive Director Comments**

17 CHAIRPERSON COURSON: I'll make a -- just a few

18 brief remarks. We obviously have a very busy agenda and

19 some very important items to discuss. We're going to,

20 as we talked at the last meeting, spend a substantial

21 amount of our time going through the business plan and

22 budget presentations for the coming fiscal year, which

23 we had a preview of at our last meeting.

24 So let me talk a little bit -- first of all, let

25 me ask and just remind -- and I should have done this at

1 other meetings, and sometimes I'm remiss. If there's
2 anybody in the room who -- we have a section of the --
3 at the end of the agenda for public testimony, and we
4 ask anyone who wants to appear and give public testimony
5 before the Board, that they identify themselves by
6 filling out a slip of paper and submitting it to JoJo,
7 and I believe those slips are on the back table over
8 there. So if there's anyone who chooses to do that, we
9 would ask that you move to the table and fill out that
10 form.
11 Having said that, let me talk a little bit,
12 first of all about the -- well, I want to mention one
13 other thing first. In your binder and just so we don't
14 miss it, I don't think we'll spend time talking about it
15 unless somebody from the Board chooses to, but under the
16 report section, the first two items are the recently
17 released Standard & Poor's and Moody's ratings of the --
18 of the Agency. And I don't think we put those in the
19 Board binders before, and I found them myself very
20 instructive, had a lot of good information, a lot of
21 good insight and certainly shows us, as a board, what
22 our bondholders and our investment bankers and rating
23 agencies are looking at. So I think that was very good
24 summary information for the Board. I wanted to make
25 sure it got included this time.

1 The other, I'll mention, is let me talk a little
2 bit about schedule today. We obviously will move
3 through our agenda. We have a couple of projects, we
4 have an update on the Bay Area Housing, and then we're
5 going to -- we have a -- go through the business plan.
6 We'll take a break at some point, see where the natural
7 breaking point is, and then we are going to move into a
8 discussion of compensation, which we've had several
9 times before. And part of that discussion will be in
10 executive session.
11 So we will recess the Board meeting, have our
12 executive session discussion, come back into open
13 session, and finish up the Board meeting. So that's our
14 logistics for the day. We'll move as expeditiously as
15 we can but also make sure that every topic on the Board
16 gets whatever discussion and consideration any of the
17 Board members feel like. I don't want to feel like we
18 are rushing through anything to meet a deadline. We
19 have a busy agenda, and we're going to do it all in due
20 course.
21 So having said that, I will turn the microphone
22 over to our executive director, Terri Parker.
23 MS. PARKER: Thank you, Mr. Chairman.
24 Actually, I just have a couple news items that I
25 wanted to let the Board be aware of. The first one is

1 to, sort of in keeping with the discussion about
2 compensation; give you a report on where we are on
3 trying to fill the two remaining vacancies we have,
4 senior managers, the director of homeownership and the
5 director of multifamily.
6 We have spent really the entire year working
7 with a firm to try to recruit these two positions
8 primarily. We have talked to over a dozen candidates
9 for the director of homeownership and over a dozen
10 people, candidates, for the director of multifamily from
11 all over the country, all over the state, with no luck.
12 So two messages there, one of them is that from
13 the recruiter that we have used, I've last week met with
14 and signed a contract to hire a new recruiter, a new
15 recruiting firm. I expect this individual to be
16 successful in giving some candidates, in fact, just this
17 morning received a candidate for multifamily -- excuse
18 me, for homeownership and two yesterday for us to look
19 through and the -- was informed that there is probably
20 three or four people that he will be talking to on the
21 multifamily side.
22 So I hope that we will be able to finally finish
23 this recruitment effort and get the staff that we need
24 and -- particularly given the initiatives we're going to
25 talk about in the business plan today.

1 I will leave you this thought, though, that one
2 of the -- the two major issues that we have heard from
3 people primarily on the multifamily side, although also
4 on the homeownership side, is compensation. Even with
5 the numbers that the Board has talked about, these
6 compensation numbers continue to be a problem for the
7 individuals that we are looking at.
8 And it's interesting for those, particularly of
9 us who have been state employees all our lives and it is
10 always touted about what great benefits the State has.
11 I think the interesting part about it is that for many
12 of these people that we talk to; State benefits for
13 State employees have changed so much. And particularly
14 of note is one of the major items that is always touted
15 as being such a unique thing the State offers, and that
16 is health benefits. But in order to get health
17 benefits, you need to essentially serve ten years to get
18 50 percent of that and 20 to get the entire amount.
19 So it is not seen by the individuals that we are
20 talking about as a major incentive. And vesting alone
21 taking a certain amount of time, that when you look at
22 what the retirement benefits are, it's really not
23 perceived by this caliber of people or this group of
24 people. It is a very major benefit for people who are
25 entering the State, but not for people coming in at

1 these particular levels.

2 So I have told the recruiter that we want to

3 look at the caliber of people. We'll certainly be

4 talking to the Board about what compensations we need to

5 get the right individual, but I wanted to give you all

6 the benefit of what I know to date about that particular

7 effort.

8 The next item that I want to move to is just to

9 give you an update. Many -- a couple of you had asked

10 me whether or not we were going to have the individuals

11 from Boles Creek come and speak with us today. And they

12 are not here, but I want you to know that the staff has

13 had a number of meetings with them, including sponsoring

14 a meeting for them to meet with HUD to talk about their

15 situation.

16 As a result of that, HUD has made some minor

17 changes in their compensation, recognizing increased

18 expenses to them. And so we continue to be in a process

19 with them to discuss whether or not they might want to

20 be making some changes to their reserve replacements.

21 But I wanted to let you all know that we are continuing

22 that dialogue with them. And at the moment they were

23 invited to send any of their concerns to HUD in letter

24 format, and we have not received that, nor has HUD.

25

1 CHAIRPERSON COURSON: And there's something in
2 the binder.
3 MS. PARKER: Yes, we did include that, but I
4 wanted to give you the most recent update.
5 The third thing, just to let you all know, you
6 had heard about and we will be talking about it at the
7 business plan today, the efforts the Agency has been
8 involved in, in working with the -- working with our
9 sister state agencies -- the Department of Mental
10 Health, the Tax Credit Allocation Committee, the
11 Department of Housing and Community Development and the
12 county mental health directors -- to put together the
13 initiative for using Prop 63 for creating housing for
14 chronically mentally ill homeless.
15 (Mr. Davi enters room.)
16 MS. PARKER: We're on the final stretch of that.
17 We will releasing a -- the required letter to the
18 Legislative Analyst in the next couple of days that
19 starts the 30-day clock, so that we hope, our intention
20 is, to have that program out on the street June 15th.
21 And with that, Mr. Chairman, that concludes my
22 remarks.
23 CHAIRPERSON COURSON: Thank you.
24 Let the record show that the Real Estate
25 Commissioner, Mr. Davi, has joined us.

1 Good to see you.

2 MR. DAVI: Good morning, Mr. Chairman, thank

3 you. Sorry I'm late.

4 CHAIRPERSON COURSON: The next item then is --

5 I'm sorry, Mr. Morris.

6 MR. MORRIS: What is the new search firm that

7 you've hired?

8 MS. PARKER: I -- I'm not going to be able to

9 tell you what the name of his firm is because I can't

10 think of it, but his name is Wayne Lucius.

11 MR. MORRIS: Pardon me?

12 MS. PARKER: Wayne Lucius.

13 MR. MORRIS: Okay.

14 MS. PARKER: He is somebody who has been in the

15 mortgage insurance and mortgage business for most of his

16 career and then turned to the recruiting then.

17 MR. MORRIS: And he's -- where is he? Is he in

18 Sacramento?

19 MS. PARKER: No. No, he actually is -- he's on

20 the East Coast. I'll be happy to send that information

21 to all of you.

22 CHAIRPERSON COURSON: Ms. Jacobs.

23 MS. JACOBS: Could I make a suggestion about the

24 recruiting efforts? If you could make sure that the new

25 recruiter also provides some online services, because I

1 think one of the -- one of the problems is that some of
2 our recruiting methods are old-fashioned and people are
3 looking at jobs online, to make sure that he does online
4 listing as well.
5 MS. PARKER: Okay. Steve, what did you hand me?
6 Oh, is this -- Management Advisors International out of
7 Atlanta.
8 MR. MORRIS: They're in Atlanta?
9 MS. PARKER: Excuse me, Trowbridge, Georgia.
10 CHAIRPERSON COURSON: Dunwoody, Georgia, which
11 is a suburb of Atlanta.
12 MR. MORRIS: The name of the firm is, I'm sorry?
13 MS. PARKER: Management Advisors --
14 MR. MORRIS: Okay.
15 MS. PARKER: -- International.
16 MR. MORRIS: Okay.
17 CHAIRPERSON COURSON: I think Ms. Jacobs has a
18 very good point. There is a great deal now of online
19 activity, posting of jobs and searching of jobs. Some
20 sites actually even specifically have sections for
21 government and state and federal government
22 opportunities, so that's very good potential.
23 (Ms. Roberts enters room.)
24 CHAIRPERSON COURSON: Other questions of Terri
25 or myself?

1 MR. MORRIS: I guess we're going to talk about
2 all this again when we get back into the recruiting;
3 right? So if we have other questions that relate to the
4 process and the recruiting, we can do that -- we'll do
5 that later in the agenda; right?
6 CHAIRPERSON COURSON: I would say we should do
7 it now. It's not an agenda item to talk about
8 recruiting specifically, so I think we should --
9 MR. MORRIS: Okay. Okay. We'll go ahead. I
10 just -- I wanted to find out more about kind of what is
11 the process that Wayne is going to be going through and
12 what he's done, if he's done any work with any other
13 state agencies or things of that nature.
14 MS. PARKER: Maybe it would be helpful if you --
15 I could, you know --
16 MR. MORRIS: I was just wondering the process
17 that we went through to select. We released one
18 recruiter. I don't know who we were using before, to be
19 honest with you, and then we went through a process to
20 select a new recruiter, so I'm just wondering what that
21 process was.
22 MS. PARKER: I know Jackie could help me with
23 the first recruiter that we had. She was somebody that
24 we hired to do some recruitment in the past for us. She
25 used to be with a California firm.

1 Jackie, I'm trying to remember -- and then
2 she --
3 MR. MORRIS: Have we ever thought about a large,
4 like a Robert Half and Associates, someone with a larger
5 national, true national presence or I'm not sure, but --
6 MS. RILEY: The first recruiter, we had used
7 someone with a very large firm, the name escapes me
8 right this moment, out of San Francisco.
9 MR. MORRIS: Okay.
10 MS. RILEY: I called him again. They
11 specifically -- we had been recruiting at that point for
12 deputy director for multifamily, and that gentleman had
13 moved from that company, and that is a very large
14 international company. And they were no longer doing
15 multifamily, because at that point in time we were
16 specifically looking for the multifamily director back
17 in probably November of '05. They referred me to a
18 couple other large firms.
19 Multifamily particularly is sort of like the
20 needle in the haystack. There are very few people
21 apparently that really focus on that. So I was given
22 the name at that point of Sally Carlson, who had her own
23 firm. She has since merged into a different firm. She
24 was the one who -- and she is located in the Bay Area --
25 has been involved -- I see, Carol, you nodding your

1 head -- in some -- she worked for Wells Fargo, very
2 knowledgeable in that particular industry.
3 So that was how we ended up with her, through
4 going through several different companies and word of
5 mouth to try and find what we thought at that point was
6 the best person for that.
7 MR. MORRIS: And then the process for the
8 selection of the new firm?
9 CHAIRPERSON COURSON: Ms. Galante.
10 MS. GALANTE: I was just going to say, wasn't
11 the -- was the large firm Heidrick & Struggles?
12 MS. RILEY: Yes, thank you.
13 MR. MORRIS: Okay. All right.
14 MS. PARKER: Which, you know, from my
15 understanding, just a comment, state government
16 typically -- rarely uses search firms. In fact, state
17 agencies to some extent normally are precluded from
18 using --
19 MS. RILEY: Yes.
20 MS. PARKER: -- recruiting companies to do
21 recruitment for positions. Usually, you know, the
22 Governor's Office does its own recruiting, has its own
23 positions for that, for exempt appointments. And so it
24 is very unique to happen in state government. The only
25 other ones that use them are sister state agencies like

1 PERS and STRS.

2 MS. RILEY: STRS, yes.

3 MS. PARKER: And these, Heidrick & Struggles,

4 again --

5 MS. RILEY: Yes.

6 MS. PARKER: -- was, you know, an agency that

7 for those few state agencies that have done

8 recruitments, this is -- this has been sort of the go-to

9 people. They're out of San Francisco. You know, you're

10 looking for hopefully somebody from California,

11 particularly in this case somebody who would be

12 California based.

13 You know, obviously, we invested a year with

14 this person, and it's not to say that they didn't try.

15 And you know, there are many of you, I know, that were

16 contacted by this individual, and we did speak to a lot

17 of people. And part of that time, obviously, we had

18 compensation levels that, you know, 118,000 for a

19 director of multifamily, we weren't going to get

20 anybody. But, it -- you know, it has proved

21 problematic.

22 Frankly, I'll say that how we picked this

23 particular person is I -- I asked colleagues around the

24 country for a name and -- that I knew of someone who did

25 work in this area that, you know, produced results. And

1 I have felt that, frankly, we had waited so long and
2 that we were such -- in such a need of someone that I
3 didn't want to spend more time trying to, you know,
4 perhaps, you know, go through a long process, but try to
5 get somebody in and see if that person could bring us
6 candidates of quality to move ahead. And so that's --
7 that is the process I have done, Mr. Morris.
8 MR. MORRIS: Thank you.
9 CHAIRPERSON COURSON: Questions? Okay. Let's
10 hope that the recruiter we have will be successful.
11 Actually, coming down on the plane yesterday, Terri
12 shared the first -- I think the first two candidates
13 that we've seen emerge from him in the homeownership
14 area. And having some experience in that area, one of
15 them -- you can't tell from a résumé, obviously. He's
16 either a very good writer or so on, but from the résumé,
17 it's probably one of the better qualified people I've
18 seen of the résumés Terri shared with me for that
19 position. So we'll see if that can pan out, but at
20 least it was one of the stronger résumés I'd taken a
21 look at over the last six months.
22 --o0o--
23 **Item 4. Resolution 07-12, Parkview Apartments**
24 CHAIRPERSON COURSON: Okay. Let's move then, if
25 we may, to Laura, and we'll talk about our projects, the

1 first one being the Parkview Apartments.
2 MS. WHITTALL-SCHERFEE: Both of the projects
3 that we're presenting to the Board for approval today
4 are acquisition/rehab projects that are currently in the
5 CalHFA asset management portfolio.
6 The first project is Parkview Apartments. It's
7 located in Sacramento.
8 CHAIRPERSON COURSON: Oh, I'm sorry. I'm sorry.
9 I'm going to interrupt you just a minute.
10 MS. WHITTALL-SCHERFEE: Okay.
11 CHAIRPERSON COURSON: I also should note for the
12 record that Terry Roberts from the Office of Planning
13 and Research has now joined us and is in attendance.
14 Sorry.
15 MS. WHITTALL-SCHERFEE: Okay. As I said, this
16 project is Parkview Apartments. It's located in
17 Sacramento. It was constructed in 1979, and it's a
18 97-unit family apartment complex.
19 The request that we have before the Board today
20 is for an acq/rehab and permanent loans. The
21 acquisition/rehab loan would really be in two parts.
22 There would be a first mortgage in the amount of
23 4,295,000 at a 6.10 variable interest rate -- we used
24 that as our underwriting rate -- for 24 months, interest
25 only, and its tax exempt.

1 At the same time we would be making a second
2 mortgage that would be for the remaining term of the
3 existing HAP contract. That will be for 1,885,000 at
4 5.2 percent for 14 years or whatever the actual period
5 is when we close the loan. That is also tax exempt.
6 The second mortgage is going to remain in place once the
7 permanent loan comes in. It will be junior to our
8 permanent financing. And our permanent loan will be in
9 amount of 4,520,000 at 5.3 percent for 30 years. It's
10 also tax exempt.
11 The project is currently owned by Parkview
12 Associates, Limited. It's a limited partnership, and
13 the general partner is AIMCO, which is the Apartment
14 Investment Management Company. They have quite a few
15 loans in our portfolio. The project is being purchased
16 is a limited partnership, Parkview Affordable, LP, whose
17 general partners are Parkview AGP, LP, and Las Palmas
18 Foundation.
19 Las Palmas Foundation is a nonprofit that is on
20 quite a few of our project -- projects. And Parkview
21 AGP, LP, is a subsidiary of Bentall Residential, which
22 is also very familiar to CalHFA. They have
23 approximately nine projects with us right now, and I
24 think nine new -- they've developed nine projects with
25 CalHFA, and they have two acq/rehabs that are very, very

1 similar to Parkview in terms of they were part of our
2 portfolio.
3 There is no other financing involved in this
4 transaction other than our own. We have a request in to
5 HUD to -- seeking approval to extend or allow the
6 14-year HAP contracts to remain in place.
7 And Jim Liska is going to now take you though
8 the slides and explain in more detail the rehab that's
9 going to be done on the project and the project itself.
10 MR. LISKA: Mr. Chairman, Members of the
11 Board --
12 MS. WHITTALL-SCHERFEE: Wait a minute. We've
13 got a problem.
14 All right. Thank you.
15 MR. LISKA: I'm going to take you through a
16 couple of the slides. Again, this project was built in
17 1979. Its 17 buildings of which one is a single-story
18 manager office center. Oops. Let's go back.
19 As you can see, the surrounding site, it's
20 located in South Sacramento. On one side of the site is
21 a -- a Kia auto dealership. The other side, we have
22 single-family detached housing. Across the street
23 there's a Rite Aid store. There's a Food Mart grocery
24 store. Right down the block on Munson Way is a bus
25 stop. So as far as amenities, there are amenities in

1 the center around the site.

2 Expanded view, aerial view. This shows what's

3 in the vicinity. Over here is the Florin Mall for some

4 major shopping.

5 Typical view of the interior of the townhomes,

6 and here's the single-story office. The majority of

7 buildings are townhouses. This is a two-story walkup.

8 It's all one-bedroom units. Another view of the

9 interior courtyard.

10 And here are our rents. As you can see,

11 50-percent rents, 60-percent rents. Where we have some

12 difficulty, the Section 8 rent on the one bedroom is

13 obviously above market. You'll see in our cash flow

14 that for the first seven to nine years, during the first

15 two years of rehab and the first year -- first years of

16 the project operations, we have not trended the Section

17 8 rents because it is above market. We are a little bit

18 closer on the two-bedroom rent between -- the

19 differential between Section 8 and the market. And we

20 are also a little bit closer on the three bedroom.

21 As far as Laura indicated, this is an existing

22 portfolio loan. Our existing interest rate on this

23 project is 9.43 percent. The existing mortgage balance

24 is approximately 2,673,028, 14 years remaining. It's a

25 co-terminus mortgage with a Section 8.

1 We did a yield maintenance calculation,
2 opportunity costs. And in the sales price, which the
3 seller will be paying, is a $405,210 opportunity cost
4 back to the Agency. As far as rehab, we're looking at
5 $2,436,335 worth of hard costs or approximately $25,116
6 per unit. What this will be addressing, some of the
7 larger items, are drainage. We needed roofing on all
8 buildings. We're going to be putting in dual-pane
9 windows. The T11 siding will be replaced with hardy
10 board. New kitchen cabinets, bathroom, kitchen upgrades
11 with appliances, floorings. The mechanical systems,
12 we'll be replacing the HVAC equipment, upgrading the
13 plumbing and the electrical.
14 As far as the relocation costs, we will have no
15 permanent removing of tenants. It will be temporary.
16 It will be a rolling rehab, as has been discussed in our
17 past projects. Bentall and Mr. Reiner and Joe Michaels,
18 as Laura indicated, have done nine projects with us in
19 the past. They pretty much know what we're looking for
20 in the way of relocation benefits as far as orienting
21 the tenants at the outset on what's to take place, the
22 timing, and taking care of their temporary needs as far
23 as if they have to be relocated, living with relatives
24 or partial replacement or temporary quarters with
25 lodging, what have you, and reimbursement for per diem

1 costs. Again, that relocation cost is $73,800.
2 Our Phase I, our seismic, came out that there's
3 no adverse findings, so that's okay there.
4 We do have a -- even though we have 14 years
5 remaining on the Section 8 HAP contract, we have a
6 transition operating reserve built into the project of
7 around $115,000 in the event that we don't get Section 8
8 renewal for this project, and this will help to provide
9 a transition, which is approximately, I don't know,
10 maybe about 30 or 40 percent of a normal debt service
11 year.
12 Cap rate, cap rate is 6.25 percent, which is
13 a -- I feel, is a realistic value and rate in today's
14 society with increasing interest rates. And even though
15 there's still a lot of investor demand out there, this
16 looks to be a realistic capitalization rate as well as a
17 restricted value that was on the property of $8 million.
18 With that, we'd like to entertain any questions
19 that you may have.
20 CHAIRPERSON COURSON: Questions from the Board
21 on the project?
22 Mr. Czuker.
23 MR. CZUKER: Just by way of disclosure, I wanted
24 to put on the record again, as I have in the past, I
25 have no economic interest in Las Palmas as a nonprofit,

1 but I have done business with Las Palmas in other
2 affordable housing projects. And so in -- by way of
3 full disclosure, I wanted to make sure that the Board
4 and the public have knowledge that while I don't feel I
5 need to recuse myself because I have no economic
6 interest in this project and I have no economic interest
7 in one of the co-general partners, the nonprofit Las
8 Palmas, but the fact that I have done business with
9 them, I wanted it to be public knowledge.
10 CHAIRPERSON COURSON: Thank you.
11 Other questions or -- Mr. Davi.
12 MR. DAVI: I just was curious. I think you
13 mentioned there's a 405 or $4,000 --
14 MR. LISKA: $405,000.
15 MR. DAVI: -- opportunity cost?
16 MR. LISKA: Yield maintenance, which is a -- we
17 call it -- like another term is prepayment penalty, but
18 it's the differential between our current financing
19 versus the new financing.
20 MS. WHITTALL-SCHERFEE: It's on your sources --
21 MR. DAVI: I see --
22 MS. WHITTALL-SCHERFEE: -- and uses under
23 prepayment.
24 MR. DAVI: -- it. I just wasn't sure if it was
25 the same thing, and you answered the question. Thank

1 you.

2 MR. CZUKER: By way of public policy, is that a

3 good use of funds? I mean, if we are trying to

4 encourage affordable housing and have funds available

5 for rehab or for promoting greater levels of

6 affordability in rehab and rehabilitation of low income

7 housing by charging a fee back to ourselves, are --

8 which, you know, we could always use the money, I'm

9 sure, but -- it doesn't hurt the coffers, but it does

10 put an added economic burden on penciling out or getting

11 what are already tight budgets to work for affordable

12 housing projects.

13 So I hope we can try to be lenient or flexible

14 in trying to help make projects work when one of the

15 disincentives or difficulties to overcome is the fact

16 that -- the added burden of a prepayment penalty makes

17 the ability to bring forward these types of projects

18 more difficult.

19 In this particular case, I mean, both -- I agree

20 with you, the appraisal, that a 6 and a quarter seems

21 reasonable and the loan to value and loan to cost are

22 staying within relatively low numbers, from 55 to 66 to

23 75 percent at its maximum. So I think CalHFA's exposure

24 throughout the process from construction to permanent

25 loan would be well protected and making this a very safe

1 and prudent restructure, and I would support the
2 project.
3 CHAIRPERSON COURSON: Questions?
4 Ms. Galante.
5 MS. GALANTE: I'm sorry, I'm being a little
6 dense this morning, I guess. So you said this was a --
7 it's a loan that's in the existing portfolio, but I'm
8 just trying to figure out --
9 MR. LISKA: It's currently --
10 MS. GALANTE: -- is it being sold?
11 MS. WHITTALL-SCHERFEE: It is being sold.
12 MR. LISKA: It is being sold by AIMCO to a new
13 buyer.
14 MS. GALANTE: And AIMCO won't have any
15 further --
16 MR. LISKA: AIMCO will only be involved, they
17 will be providing -- they are the tax credit investor
18 for the new tax credits.
19 MS. GALANTE: So, yeah, tax credits was my
20 second question. So there are tax credits.
21 MR. LISKA: There are tax credits. We are
22 seeking 4-percent tax credits. This has been submitted
23 to CDLAC for tax exempt bonds. So this is a sale.
24 MR. CZUKER: With new tax-exempt bonds.
25 MR. LISKA: Excuse me?

1 MR. CZUKER: With new tax-exempt bonds.
2 MR. LISKA: With new tax-exempt bonds.
3 MR. CZUKER: A new allocation.
4 MR. LISKA: A new allocation of funds.
5 CHAIRPERSON COURSON: Other questions from the
6 Board?
7 Is there a motion to approve the project as
8 stated in the resolution on page 191?
9 MS. JACOBS: So moved.
10 CHAIRPERSON COURSON: Ms. Jacobs moves.
11 Is there a second?
12 MR. PAVAO: Second.
13 CHAIRPERSON COURSON: Mr. Pavao seconds.
14 Any further discussion?
15 Is there any discussion or comments from the
16 public?
17 See none, then let's call the roll.
18 MS. OJIMA: Thank you.
19 MS. WHITTALL-SCHERFEE: The next project is --
20 MS. PARKER: Wait.
21 CHAIRPERSON COURSON: We need to vote first.
22 MS. WHITTALL-SCHERFEE: Sorry. I was just ready
23 to jump right in. I apologize.
24 MS. OJIMA: Mr. Davi.
25 MR. DAVI: Yes.

1 MS. OJIMA: Mr. Carey.
2 MR. CAREY: Yes.
3 MS. OJIMA: Mr. Czuker.
4 MR. CZUKER: Yes.
5 MS. OJIMA: Ms. Galante.
6 MS. GALANTE: Yes.
7 MS. OJIMA: Ms. Jacobs.
8 MS. JACOBS: Yes.
9 MS. OJIMA: Mr. Pavao.
10 MR. PAVAO: Yes.
11 MS. OJIMA: Mr. Morris.
12 MR. MORRIS: Yes.
13 MS. OJIMA: Mr. Courson.
14 CHAIRPERSON COURSON: Yes.
15 MS. OJIMA: Resolution 07-12 has been approved.
16 --o0o--
17 **Item 4. Resolution 07-13, Yosemite Manor**
18 MS. WHITTALL-SCHERFEE: Okay. Now I'll start
19 speaking. This last project is Yosemite Manor, and this
20 is also a portfolio loan. This loan is being brought to
21 the Board very much in the same -- with the same type of
22 structure that you saw at the last Board meeting for
23 Eureka Family in that we have a locality who is selling
24 it and is going to be involved in the new ownership
25 entity as well.

1 We did pass out some additional or corrected
2 information. I just want to make sure that all the
3 Board members have that information. There was no
4 change on the cover page, but what did change was
5 information that we'll go over in the project summary
6 and in the sources and uses, and I just wanted to make
7 sure that everybody had that. Okay.
8 Yosemite Manor is an existing portfolio loan
9 that is a 76-unit senior apartment complex located in
10 Madera, which is in Madera County. It's currently owned
11 by the Housing Authority of the City of Madera. It's a
12 76-unit three-story three-building structure that was
13 constructed in 1979.
14 The new owners will be MORES Yosemite Manor,
15 Limited Partnership. And the general partners of this
16 new limited partnership will be Madera Opportunities for
17 Resident Enrichment and Services, Inc. -- the acronym is
18 MORES -- and the Housing Authority of the City of
19 Madera. They're both California nonprofit corporations,
20 and they both have the same executive director, Nicholas
21 Benjamin.
22 The request is for acquisition/rehab and
23 permanent financing. The acquisition/rehab involves a
24 first mortgage in the amount of 3,400,000 at a variable
25 interest rate for 12 months interest only with

1 tax-exempt money.

2 The second mortgage, which is based on your

3 Section 8, will come in during the acquisition loan and

4 is in the amount of 810,000 for 5.3 percent, 15 years,

5 tax-exempt financing as well. That loan will be

6 subordinated when the permanent financing closes to a

7 first mortgage in the amount of $950,000 at 5.3 percent.

8 It will be a 30-year loan, but it will be due in 15

9 years. It's going to be fully amortized, but it could

10 be due if the HAP Section 8 that is currently on this

11 project becomes -- goes away. There is a current HAP

12 contract that expires on January 30th, 2020. It's on

13 the entire project.

14 This project does have some additional

15 financing, and the additional financing is provided by

16 MORES and the Madera Housing Authority. MORES is

17 providing a $600,000 capital contribution with no

18 repayment provisions, and the Housing Authority of the

19 City of Madera is going to carry back a loan in the

20 amount of $1,840,000 at 3 percent for 55 years. Jim is

21 going to explain a little bit more as to why there was a

22 change.

23 Existing replacement reserves of 286,000 are

24 going to also be used during the acquisition and rehab

25 phase as is an operating reserve of $33,750.

1 And with that, Jim is going to take you through
2 the slides, go into more detail than I did on the
3 financing, and then we'd be happy to answer any of your
4 questions.
5 MR. LISKA: Okay. Here's our project. It's
6 really a rectangular site and the boundary goes --
7 should really be here. But we surrounded the whole
8 site. This building over here is a senior center. This
9 is a county school office. These buildings are not part
10 of the project, but what we do have, the parking -- we
11 have use of the parking. And we have a reciprocal
12 easement for parking, and the project is responsible for
13 maintaining the parking and the lights within this area.
14 The project is basically located in a mixed-use
15 neighborhood. We've got single family on a couple
16 sides, some commercial across the way. Here's a gas
17 station. We do have public transportation nearby.
18 Again, this is a larger aerial view.
19 This is the entrance. The project was built in
20 '79. You can see, barely, the shingles are curling.
21 We're going to be replacing the roof as part of our
22 rehab. We have wood trim that's dry rot deteriorating
23 that's going to be replaced.
24 The common area, pretty bleak, huh? We're going
25 to be upgrading this, renovating it. The heating and

1 air conditioning system, this will also be upgraded.
2 Typical kitchen view, and we'll be doing some
3 renovation here.
4 Again, as Laura indicated, we have a Section 8
5 HAP contract in existence. And as you can see, the
6 Section 8 rent equals our market rate. We're in an area
7 where rents just don't increase that dramatically. And
8 one reason why we have the identity of interest project,
9 one reason why we're now looking at rehabilitation, the
10 project was built in '79, as was explained, and we need
11 to do some renovation, curing of some of the deferred
12 maintenance that has occurred over time. The project
13 has just not accumulated enough existing replacement
14 reserve.
15 The market rents are such that we can't increase
16 our Section 8 rents, so we have discussed with our bond
17 counsel, we've discussed with the project attorney, and
18 in this case the tax -- proposed tax-credit investor.
19 It's going to be Merit Capital. They're going to be
20 providing 4-percent tax credits. And they're in
21 agreement that looking at this identity of interest
22 structure that it does meet the test with you don't have
23 conflict.
24 On this project, we have an 8.375-percent
25 existing interest rate. We have approximately a

1 $1.8-million mortgage balance. And here again, we're
2 looking at a $550,000 opportunity cost, yield
3 maintenance, prepayment penalty for the project based
4 upon the differential in financing from the existing to
5 the proposed.
6 How did we arrive at a seller carry-back? Our
7 value is $4,190,000. We deducted out the 1,800,000,
8 approximately, mortgage balance. We deducted out the
9 $550,000 yield maintenance. And we came up with a
10 seller carry-back of $1,840,000. This is
11 approximately -- well, it's not approximately. It's
12 43.91-percent loan to value. This meets the test that
13 it doesn't exceed 50 percent for bond financing.
14 Again, we're doing a construction rehab loan.
15 We're doing a first of $950,000. We're doing a second
16 of the remaining Section 8, $810,000. Then we have the
17 contribution by the City, and then finally we have the
18 residual receipt, our seller carry-back loan, which will
19 be paid out of residual receipts if there's any money
20 left over. In all probability, you know, it could be a
21 balloon payment at the end.
22 What was not discussed in the beginning, as you
23 can see on the cash flow, there is only approximately
24 13 -- 14 to 15 years left on the existing Section 8 HAP
25 contract, and we are basically requesting a 30/15-year

1 mortgage. If we do not get Section 8 after that period
2 of time, you can see on the cash flow that it does not
3 debt service. And the loan would have to be
4 recapitalized, refinanced, in some form or fashion.
5 We'd have to be paid off.
6 So that's a key, and that's part our new
7 program, and that's why we allowed a 30/15. And if you
8 remember, those that were in attendance at our last
9 Board meeting, we had the same situation arise in the
10 Eureka loan.
11 As far as relocation, we're looking at $500,000.
12 Again, we're not looking that it be invasive. We have
13 an executive director from the City of Madera. He's
14 very familiar with dealing with rehab. He's familiar
15 with dealing with tenants as far as orientation,
16 providing information to them on what's going to take
17 place during the rehab process.
18 MS. WHITTALL-SCHERFEE: I think Jim said
19 500,000, and it's 50,000 for relocation.
20 MR. LISKA: You're right. You're right. I
21 should have worn my glasses on that one, sorry. 50,000.
22 Let's not get carried away.
23 As far as the Phase I and seismic, there were no
24 adverse findings.
25 And so with that, we would like to address any

1 questions that you may have.

2 CHAIRPERSON COURSON: Questions on the project

3 from the Board?

4 Mr. Czuker.

5 MR. LISKA: Yes, sir.

6 MR. CZUKER: While I'm very supportive of the

7 project, I have a question that relates to cap rate. I

8 mean, we just saw on the prior project the

9 6-and-a-quarter cap rate. Here we're seeing 5.75. That

10 drop in cap rate is significant in how would that change

11 your whole analysis hypothetically if you were using a

12 more similar 6, 6-and-a-quarter cap rate? Your loans,

13 after all the third-party subsidies, are still

14 relatively low percent wise. Wouldn't it be more

15 prudent to be using a higher cap rate and reflect the

16 loan to values a little bit more conservatively?

17 MR. LISKA: Your point is well-taken. The

18 range, we looked at, we reviewed, the appraisal. A 5.75

19 to 6 and a quarter in today's market is -- it's pretty

20 realistic. We can live with it. We looked at the sale

21 comps. We looked at the cap rates. You're right. What

22 would happen in the event of a higher cap rate, it would

23 reduce the value. The result -- we would have a

24 resultant lower seller carry-back. That would cause us

25 to have -- encourage less tax credits as a result.

1 We did not sort of manipulate the numbers. I
2 mean, this is the way it turned out. When we did our
3 review with the appraisal, we felt the cap rate was
4 appropriate. The value was appropriate for this type of
5 project. It's a senior project. It's three-story
6 elevator construction. Even though we're putting one
7 and a half million dollars into rehabilitation, it
8 doesn't look bad for its age. I will say that. It's
9 very functional. So I did accept the cap rate at 5.75.
10 CHAIRPERSON COURSON: Other questions?
11 Mr. Davi.
12 MR. DAVI: I want to follow up on that and --
13 because I was taken aback by the cap rate on the prior
14 project because I know the area very well. I don't know
15 this area very well. And cap rates to me, although I'm
16 not an appraiser, are very flexible depending on the
17 area. And so I've got to defer to you. This is a lower
18 cap rate. They're getting low as I see them go from 6
19 to 5. I know that the market's changed. Cap rates have
20 gone down in the last ten years steadily.
21 MR. LISKA: Correct.
22 MR. DAVI: But, you know, it just seems to me
23 that -- I'm just reacting to what he said. I kind of
24 agree. Sometimes it's nicer to have a conservative cap
25 rate on projects like this. And if you know this

1 area -- is that the reason? Is the area better than the
2 Munson?
3 MR. LISKA: Munson or Sacramento?
4 MR. DAVI: It must be.
5 MR. LISKA: It is -- it is a good central
6 location area, you know. For the Madera market, you
7 know, it's well located. In conjunction -- in
8 proportion like Fresno or a larger market area, yeah,
9 you would probably see a -- maybe a lower cap rate.
10 Again, we're looking at $55,000 a unit versus,
11 say, 47, which you just saw in Sacramento, which I think
12 that project is in a little worse condition. Based upon
13 this project's location, the quality, the design of the
14 project, the use of the project, the 5.7-percent cap
15 rate is probably at the bottom of the range. But,
16 again, I would accept it, and, you know, make it --
17 MS. WHITTALL-SCHERFEE: We've also been seeing
18 cap rates go up. I think a couple boards ago we were
19 talking about cap rates in the range of 5.25. So we are
20 using actually higher cap rates. I think you also need
21 to take into account that this is a senior project and
22 the other one was a family project, and so you have a
23 little bit more stability in your rental population.
24 MR. DAVI: Okay. Thank you.
25 CHAIRPERSON COURSON: Mr. Morris.

1 MR. MORRIS: Just in general, as we all know,
2 the problem with cap rates, I mean, it's purely just a
3 best guess estimate of what you think this thing will
4 sell for. But I think if you look at the replacement
5 costs, the loan as it -- you know, loan to cost, then I
6 think we're well protected. But cap rates are always
7 tricky because, I mean, I've seen cap rates all over the
8 board on multifamily and on office and on retail. There
9 can be pretty big spreads. I mean, it's amazing what
10 some people are willing to pay in this market. So --
11 but I think that we're well protected, given the loan to
12 cost.
13 MR. LISKA: No, in reply to Mr. Czuker, his
14 point is well-taken. Rates have -- cap rates have moved
15 up, and we are cognizant of that, and we are looking for
16 an appropriate cap rate and that not just trying to get
17 a squeaker in there, something low.
18 CHAIRPERSON COURSON: Other questions, comments
19 from the Board?
20 Mr. Czuker.
21 MR. CZUKER: You know, in support of the
22 project, you still have obviously adequate debt coverage
23 ratios and loan to cost and cost per unit, so the other
24 criteria of dissecting and looking at different
25 components of the project from different angles would

still give CalHFA a good collateral position and a good cash flow position, so I'm supportive of the project.

MR. LISKA: Thank you.

CHAIRPERSON COURSON: Other comments from the Board?

If not, is there a motion to approve the resolution on page 13 -- 213, approve the project?

MR. CZUKER: So moved.

CHAIRPERSON COURSON: Moved by Mr. Czuker.

Is there a second?

MS. JACOBS: Second.

CHAIRPERSON COURSON: Second by Ms. Jacobs.

Any other comments from the Board?

Are there any comments from the public?

Seeing none, we'll call the roll.

MS. OJIMA: Thank you.

Mr. Davi.

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs.

1 MS. JACOBS: Yes.

2 MS. OJIMA: Mr. Pavao.

3 MR. PAVAO: Yes.

4 MS. OJIMA: Mr. Morris.

5 MR. MORRIS: Yes.

6 MS. OJIMA: Mr. Courson.

7 CHAIRPERSON COURSON: Yes.

8 MS. OJIMA: Resolution 07-13 has been approved.

9 CHAIRPERSON COURSON: Laura, Jim, thank you very

10 much.

11 MR. LISKA: Welcome.

12 --o0o--

13 **Item 5. Resolution 07-14, Bay Area Housing Plan**

14 CHAIRPERSON COURSON: Well, it wouldn't be a

15 CalHFA Board meeting if we didn't have the Bay Area

16 Housing Plan. As you know, every Board meeting since

17 we've been involved in this project, over more than a

18 year, we do get an update as to the status. And Kathy

19 and Edwin are about to do that.

20 I believe also they're -- unless somebody else's

21 eyes are much better than mine, there is a larger

22 version of the very small chart that was included in

23 that, and we appreciate you -- your assistance for those

24 of us who are in our twilight years. I'm speaking for

25 myself as the Chair.

1 MR. GIPSON: Good morning. We do have a few
2 extra handouts this morning. They aren't replacement
3 pages, but they are additional reference materials and a
4 little bit larger chart as -- as said.
5 We are here today for an additional final
6 commitment request for $35 million for Bay Area Housing
7 Plan. This will increase the Agency's aggregate
8 commitment from 70 million to 105 million. It is
9 expected that the number of houses will decrease from 71
10 to approximately 64. And if that does happen, we may or
11 may not need to come back past the 105 million mark. So
12 as we track progress, we'll see how that is as we get
13 closer to the exact number of units we're going to need.
14 It's been a long road to here, and I'd like to
15 commend our partners, including Hallmark and Bank of
16 America. And joining us today is Chuck Gardner from
17 Hallmark and Mardie Oaks from Hallmark. In addition,
18 I'd like to thank Kathy and Liz Hogan, Sabrina Saxton
19 and Catherine Dolph for the continued work.
20 The Bay Area Housing Plan has continued to be a
21 multiplier, so we started off with a ton of work at the
22 beginning to get it going, and all it's done is multiply
23 itself as we got into more details. So it continues to
24 be a very uphill road, but I think a great deal of
25 progress has been made. Things are moving forward well.

1 They've been bumpy and -- I wouldn't say they haven't
2 been bumpy, but they're moving well considering all the
3 obstacles that have been placed before us.
4 We'll show you some good news along with slides
5 when Kathy gets moving forward with the presentation.
6 And I just want to say that we started our commitments
7 early, and there was, you know, a little bit of faith
8 taken, but we had done a lot of homework to that point.
9 But to get us here, we needed to make some additional
10 commitments up-front and early based on all that
11 information we had, and we are only here today because
12 of those early commitments in moving forward through the
13 details, and things have held up well.
14 So with that, I'll let Kathy take us through the
15 latest updates to the project.
16 MS. WEREMIUK: Chairman Courson and Members of
17 the Board, it's a pleasure to be here again today.
18 This request is for an additional 35 million in
19 commitment authority. The security for the commitments
20 will be between 64 and 71 single-family homes in three
21 different types, two of which will be licensed.
22 Repayment of the Agency's loans will be from a lease
23 structure, which is backed up by guarantees from the
24 regional centers with additional security in the forms
25 of notes and deeds of trust on the individual properties

1 which are cross-collateralized by regional center.
2 Included in our notes will be a one year of debt service
3 reserve that will be within the bond structure and will
4 have an additional security from the regional centers.
5 Over the last two months we've made, I think,
6 substantial progress. The chart that's in front of you
7 is not just an increase in size for readability, but we
8 graduated to two pages because we currently have 51
9 projects in the pipeline and 31 that the Agency has made
10 commitments on.
11 You'll notice that the Agency to date has
12 committed $52 million. We missed by one day. We
13 thought yesterday we were going to commit an additional
14 four properties and bring us up to 60 million with a
15 10-percent guarantee from Bank of America and get to the
16 full -- get to the top of their credit line. We'll do
17 that on Monday. It moves fast.
18 We also have in our pipeline -- we have 21
19 projects in our pipeline which would require additional
20 commitment up to 87 million with Bank of America,
21 additional 6 million of commitment authority required.
22 We are currently looking at needing 93 million in
23 today's snapshot. That snapshot does change on a weekly
24 basis.
25 We have reached -- as of Monday we'll reach the

1 top of Bank of America's line when they take down those
2 four properties, and the initial structure that the
3 Agency had been looking at was the idea that the
4 properties would go through completion and then we would
5 wait six months and issue bonds on approximately 40
6 million of properties.
7 Currently to meet the Agnews closing deadline,
8 which is a legislatively set deadline of June of next
9 year, we've been exploring a warehouse line where the
10 Agency will purchase the loans from Bank of America as
11 the properties are completed and do a bond issuance in
12 December of approximately 50 million with properties
13 that we've already purchased. It gives us more
14 certainty when we're doing the bonds. We know exactly
15 what the costs are. It works for the Agency, and we
16 believe that it also works for the bank and the
17 borrowers.
18 MR. GIPSON: And that was an originally
19 contemplated thought, that we may end up meeting the
20 line. You need to take it down off the line upon
21 stabilization instead of waiting to issue bonds just
22 because of the sheer speed of that, so the thought was
23 out there in the very beginning that that may be
24 necessary.
25 MS. WEREMIUK: And the documents were structured

1 both ways, although we had -- when we didn't know what
2 this project would look like, we had a different
3 snapshot in our mind as to how we would carry forward
4 with this.
5 That said, we -- when we purchase the
6 properties, what we're looking at doing is a
7 modification at bond sale, modifying the notes and the
8 lease. So it would be a very simple process after bond
9 sale. The closings would have taken place in advance.
10 When you look at the schedules and you look at
11 the second chart, which is a construction chart, you'll
12 see seven properties in that chart that were properties
13 that were rehabbed prior to the acquisition, prior to
14 acquisition with Bank of America. We anticipate that in
15 the next month with this commitment authority we'll be
16 purchasing those seven loans: The four Cupertinos,
17 Medina and Ginger and Taylor.
18 And I apologize for the small size of the second
19 page. If I had pulled it out and read it, I would have
20 made it into two pages as well. I couldn't read it
21 either this morning.
22 In terms of where we are with what's happened in
23 the last two months since you saw us last, we did
24 finally execute the memorandum of understanding with the
25 three regional centers in which they agreed to put

1 11.115 million of additional equity in the project.
2 There is a chart in your staff report that shows
3 basically a maximum and minimum loan amount that the
4 Agency -- that each loan would have.
5 Under the formula in that commitment to date and
6 since last month, the regional centers have committed
7 and put in over five -- they put in $5,874,000 on the
8 first 31 properties so we've had -- we've had good
9 faith. It gives us a structure where we know what our
10 maximum loans are going to be, what the minimums are
11 going to be. And for DDS and the regional centers, it
12 allows them to anticipate what their lease amounts are
13 going to be and to do some planning. As they're going
14 through the May revise with the Legislature, they can
15 say with some certainty what the costs are going to be
16 to them when the Bay Area plan is fully functional.
17 Currently six properties, the Agency has
18 approved six properties for construction. Three of them
19 are in construction, and that pace is speeding up.
20 We're learning to get through the -- there's a
21 preapproval process for the construction documents after
22 the Agency makes its commitment and approval for the
23 bank. We've had some bottlenecks in that process. Part
24 of it's a learning curve on both our side and
25 Hallmark's, and we feel confident that we're getting --

1 we're getting through that, so.
2 But we do see properties currently in
3 construction, and we anticipate that by the time of the
4 first bond sale, all but two of the properties -- I
5 think 30 properties, all but two that you see here and
6 one additional that was previously acquired under a
7 different line by Hallmark will have been completed.
8 One of the other bottlenecks that the -- that
9 Hallmark has faced, Hallmark Community Services has
10 faced, has been permitting. We have new licensure
11 types. They have done extensive education with
12 localities in terms of the permitting. Every building
13 is sprinklered and has many safeguards for the
14 residents, and they've been working with, I think --
15 MS. OAKS: Sixteen now.
16 MS. WEREMIUK: -- with 16 jurisdictions,
17 educating the fire departments in the 16 jurisdictions
18 as to the licensure categories. It has taken longer
19 than expected, but as we do repeats, it's starting to
20 speed up.
21 So I want to just show you, the other thing
22 we've had in the last -- in the last month, the last two
23 weeks, actually, is the opening of the very first 962
24 home. It is in San Bruno. The property is, we call it
25 Medina. It's a medical model, newly licensed, a med 4.

1 There will be four families in it. It was previously
2 owned by the service person who's going to be the
3 service provider who had developed it as a group medical
4 home and decided when the licensure came through that
5 he'd rather be a service provider with this program,
6 sold the property to Hallmark Community Services.
7 You'll see in the front, the service providers
8 and also -- let's see if I can do this -- Jim Shorter,
9 who's the executive director of the Regional Center of
10 the East Bay and Gabe Speyer, who's with Bank of
11 America, and a couple of our staff. It was the day
12 after the bridge -- it was the day after the bridge went
13 down, so you won't see Ed and I from Southern California
14 or anybody who had to drive down from -- drive down from
15 Sacramento.
16 This is a front view of the property. This is
17 the expanded kitchen and the kitchen facilities that the
18 residents will have. Mardie took the pictures. This is
19 a view of the expanded hallways, the shower facilities
20 and the bath facilities.
21 This is a bedroom that didn't get a tremendous
22 amount of -- it still needs to be refurnished from the
23 looks of it, but it gives you a view of the bedrooms.
24 And it was a four bedroom with a master. The master was
25 converted into an office and a bedroom and expanded for

1 the master bath.

2 The property itself was purchased at the

3 appraised value of a million-250. We were looking at an

4 acquisition cost of a million-792. Over 200,000 of the

5 difference is the bond, the debt service reserve. The

6 property is well under the maximum purchase amount for a

7 962 home, which is 935,000, so the regional centers did

8 not put equity into this -- this property. One of the

9 successes is that two days after the opening, residents

10 began to move in, and it is licensed.

11 With that, if you have questions, Chuck and

12 Mardie are here to answer questions about construction

13 schedule. I don't -- and I think I would prefer to have

14 them with me to answer those questions.

15 CHAIRPERSON COURSON: Thank you.

16 Chuck, nice to see you again. Thank you for

17 joining us.

18 MR. GARDNER: Good to see you again.

19 CHAIRPERSON COURSON: Mr. Morris.

20 MR. MORRIS: Maybe you could comment a little

21 bit on just the housing environment. I mean, I've just

22 been looking at this. It looks like the median prices

23 of homes that we're acquiring tend to be trending down.

24 Looks like we're able to afford things that possibly in

25 the past not. It also looks like the loan to value is

1 improving as well in this environment. So it looks like
2 we own seven properties, the recent properties, that
3 you're making some good -- you're getting some
4 opportunities where '06 was a tough market. Do you see
5 that continuing? Are you seeing now that we basically
6 have commitments up to 50 -- 47 properties, and I guess
7 you've got commitments up to, what, 51 properties?
8 MS. WEREMIUK: Right.
9 MR. MORRIS: And feel that this funding will
10 take you through 64 properties. Do you think given this
11 environment that you might be able to get beyond that
12 64? Maybe just comment in general about the market.
13 MS. WEREMIUK: What's -- I won't comment on the
14 market, but I'll comment on the numbers. We're not sure
15 yet. In the last year, some of the residents at Agnews
16 have been moved to other housing, into other housing
17 arrangements due to some of their own medical issues.
18 And so the need for replacement housing has gone down.
19 We're not -- it hasn't been quantified yet, but the
20 regional centers at the same time need some emergency
21 housing for other families, and they're making the
22 decision as to whether they want to go through and
23 purchase all 71 homes or stop at the 64 that they
24 currently think they need.
25 Mardie and Chuck, do you want to comment on

1 the --

2 MR. GARDNER: Well, there's a couple questions

3 there, so. The other thing, DDS, the Department of

4 Developmental Services, is in the process of reconciling

5 what the ultimate number is going to be, so the number

6 is still a little bit in flux, and they're going to be

7 nailing that down shortly because we actually only have

8 17 more properties left to purchase, so they're going to

9 have to decide pretty quick what that number is going to

10 be.

11 In terms of the market conditions, in December

12 we started to see -- you know, we went from being in

13 a -- when we started this project, being one of six

14 offers and competing and having to pay more than asking

15 price to actually being the only offer and asking

16 somewhere, you know, sometimes 20 to 40 thousand dollars

17 below the asking price.

18 I would say sometime in February we saw the

19 market change, and we started getting back to a multiple

20 offer environment for homes that were attractive. It's

21 not back to the level of activity that we saw in July,

22 but we are kind of seeing it tick back up. And it could

23 be just seasonal because its spring and people are back

24 in the housing market, but the market's a little tighter

25 than it was back in December and January.

1 CHAIRPERSON COURSON: Mr. Czuker.

2 MR. CZUKER: I think there was a little
3 difficulty in getting the program off the ground and
4 ramping up, which obviously had a lot of logistics, so
5 my compliments to you in working through all of the very
6 complicated multiple disciplines and different agencies
7 that had to cooperate here.

8 My question is, are you experiencing in the
9 current period a drop in your rehab costs? It appears
10 that there could be some experience where costs are
11 coming down slightly, and will that improve your ability
12 to execute both forward?

13 MR. GARDNER: I don't know that we've seen any
14 reduction in construction costs. We've had ten projects
15 now that we have had -- put out to bid and had bid
16 results on. Generally we are on or below budget. We're
17 not seeing any big budget busts, so that's the good
18 news. I don't really expect that to trend down very
19 much.

20 You know, we still have -- we've done a lot of
21 recruitment to get general contractors interested in
22 this job. It is a really -- it's a difficult fit
23 because it's not big enough to attract the caliber of
24 commercial contractors that you might like to have, but
25 it has all the paperwork and maybe then some of a public

1 works project. So one of the challenges we have is, you
2 know, the contractor who bid our first batch of
3 projects, we're really having to kind of drag him along
4 through the paperwork, and he's not really so anxious to
5 bid our Batch II projects.
6 One of the things we did to try to attract a
7 little bit larger volume contractors is we batch them.
8 So our minimum batch is three homes, which gives the
9 contractor approximately a million-two worth of
10 construction value to bid on. And we aggregate them by
11 region. So we've gotten some better quality contractors
12 that way, but they, you know, were not really
13 anticipating the paperwork.
14 And so for our contractors, we're trying to keep
15 them on board and explain to them that every time we get
16 into a new phase of this project, there's a huge
17 learning curve by all the parties, but if they'll just
18 be patient with us, we'll get all the kinks ironed out
19 and it will become a smooth process, as it has been in
20 the past.
21 CHAIRPERSON COURSON: Other questions or
22 comments from the Board?
23 The motion would be to increase the funding by
24 $30 million up to --
25 MS. WEREMIUK: 35 million.

1 CHAIRPERSON COURSON: 35 million, sorry -- up to
2 a total of 105 million as set forth in the resolution on
3 page 225.
4 MR. CZUKER: So moved.
5 CHAIRPERSON COURSON: Mr. Czuker moves.
6 Is there a second?
7 MS. JACOBS: Second.
8 CHAIRPERSON COURSON: Ms. Jacobs seconds.
9 Is there any further discussion from the Board?
10 Any discussion or comments from the public?
11 Seeing none, we'll call the roll.
12 MS. OJIMA: Thank you.
13 Mr. Davi.
14 MR. DAVI: Yes.
15 MS. OJIMA: Mr. Carey.
16 MR. CAREY: Yes.
17 MS. OJIMA: Mr. Czuker.
18 MR. CZUKER: Yes.
19 MS. OJIMA: Ms. Galante.
20 MS. GALANTE: Yes.
21 MS. OJIMA: Ms. Jacobs.
22 MS. JACOBS: Yes.
23 MS. OJIMA: Mr. Pavao.
24 MR. PAVAO: Yes.
25 MS. OJIMA: Mr. Morris.

1 MR. MORRIS: Yes.

2 MS. OJIMA: Mr. Courson.

3 CHAIRPERSON COURSON: Yes.

4 MS. OJIMA: Resolution 07-14 has been approved.

5 MR. GIPSON: Thank you.

6 CHAIRPERSON COURSON: Thank you.

7 MR. GARDNER: Thank you.

8 CHAIRPERSON COURSON: Thank you, Chuck.

9 The Chair is going to suggest that we're next

10 going to move into the business plan and the operating

11 budget, so let's take about a ten-minute break. We'll

12 come back at about -- I have 17 till. We'll start at

13 five till 11:00. So we can take a break, and then we're

14 going to move straight through the rest of the agenda.

15 (Recess taken.)

16 --o0o--

17 **Item 6. Resolution 07-15, Five-Year Business Plan**

18 CHAIRPERSON COURSON: We'll reconvene after our

19 recess, and now I'm going to ask Terri to lead us

20 through the business plan, which we had a preview of

21 last meeting, page 229 in your Board book, and there are

22 additional handouts which you will see on the Five-Year

23 Business Plan and the operating budget, which will be

24 the next two items we'll be talking about.

25 MS. PARKER: Good morning, everyone.

1 This is the exciting meeting for us every year
2 when we come and present to you our proposed business
3 plan. I have to say, you know, we talked a lot about
4 this at our January meeting where we gave you a recap of
5 where we were in our current business plan. And also I
6 think we gave you a -- pretty good proposed concept at
7 our March meeting.
8 So in some respects what we have here is really
9 not a big surprise to anyone or shouldn't be. And I
10 think the emphasis here for us, if I really wanted to
11 look at it in totality as a concept; the business plan
12 actually proposes a lower production number over five
13 years than it has in the past. Primarily that is
14 because of the numbers in homeownership.
15 When you look at what we are doing this year,
16 we're on track of almost a billion-seven, maybe a
17 billion-eight of lending which we could do if we had the
18 resources. Going back to proposed homeownership
19 activity of a billion and a half is a reduction, but it
20 is a reflection of how much we are trying to adequately
21 guesstimate we will be receiving from the Treasurer's
22 Office in tax-exempt financing. Particularly this year
23 going forward, we had to share some of our allocation
24 that we got in the past with the Department of Veterans
25 Affairs, which we have not had to do in the past.

1 So I will say this -- or we will say this many
2 times during our presentation today, but we are
3 challenged about finding the resources to grow these
4 programs, and that is one of the challenges and really
5 underlying activities that the staff are working towards
6 and have been in the last year. We have some successes
7 that we are going to talk with you about of ways to
8 approach that, but that continues to be our biggest
9 challenge.
10 Having said that, though, in order to do
11 business going forward, we have to essentially really
12 start from scratch in bringing up our systems to make
13 them consistent with the industry that we are actively
14 involved in. We have, and we'll talk about this and
15 have talked about this for a number of years, the
16 strategic initiatives that we have unfortunately
17 launched into all at one time, so it's a horrendous
18 effort, but we are really at the point in time that if
19 we did not do them, frankly, we would be having our
20 systems crashing all around us.
21 And I will give -- share a little story with
22 you. We -- as an example. We increased our rates the
23 other day because our production, frankly, is much
24 faster than we can -- than we have recourses to cover.
25 And when we put the bulletin out to raise rates, we had

1 such an impact, we had 68 -- almost a $68-million day.
2 It froze our intake system. And if it wasn't for our
3 folks really getting all over this, handling calls --
4 because we got calls from all our lenders -- we probably
5 would have had, you know, a complete meltdown in our
6 system.
7 So these strategic initiatives are really the
8 main story behind what we are, and they're not just
9 about next year's production, but they are about the
10 future of the Agency.
11 So you can see -- I'm just going to go through
12 this briefly -- total activity, 12.8 billion. Mortgages
13 in the $7.8 billion range. Mortgage insurance, 3.6.
14 Basically we are tracking mortgage insurance based on
15 our homeownership lending programs. We have had an
16 increase in the mortgage insurance programs, and we are
17 fortunate to have them, given some of the new products
18 that we have put together.
19 Strategic initiatives, again, major investment.
20 And we will be going through this at even greater depth
21 when we talk about it because it is the major story in
22 our operating budget.
23 The overview is a great story. It's really --
24 we have a very strong demand for our products. You
25 know, we have made a name for ourselves out there in the

1 marketplace, and now we have to figure out how to, you
2 know, maintain that. That's why we need additional
3 liquidity and at the same time see if there aren't ways
4 for us to be more creative in some of the programs that
5 we can create in the future that might not need new bond
6 cap or housing trust funds.
7 We have been successful in building up some of
8 our special lending programs now to a point in time
9 where they are going to self-fund themselves, so we
10 won't be having to go to our Housing Assistance Trust
11 Fund to deplete those, but we can now essentially be
12 rotating and leveraging those funds on an ongoing basis.
13 The challenges and the complexities continue to
14 be, as I said earlier, recruiting the leadership for our
15 major program areas. And it's not just the fact that we
16 don't have a director of homeownership or we don't have
17 a director of multifamily, but we are actually missing
18 some of the key staff below those positions, and in many
19 of our areas the challenge of trying to hire lenders,
20 staff to do underwriting, it goes throughout the entire
21 agency.
22 Clearly the impact of a subprime crisis we'll be
23 involved in. Even if nothing else, it's a discussion of
24 coming to us as a flight to quality. But we do need
25 capital to do lending.

1 We will talk more about our multifamily products
2 and the role in the marketplace and the things that we
3 have been doing this year where we have not had the
4 benefit of a director of multifamily, but we have had an
5 outstanding staff who have been working very diligently
6 bringing new products to the Board and new projects.
7 And Edwin is going to be talking about, for example,
8 changes in our architectural design.
9 So for anybody who thinks we haven't been doing
10 things, we're here to tell you today that we've been
11 trying to keep ourselves challenged and involved.
12 Again, strategic initiatives, I can't say that
13 enough.
14 If you go to the next slide, this is a breakdown
15 among the program areas of our use of the Housing
16 Assistance Trust Fund. We put this chart together for
17 you because for all intents and purposes, this really is
18 at the heart of the Board making any changes about
19 program direction or utilization of our resources.
20 These are the HAT funds where we have the
21 discretion to really incentivize our programs. And if
22 you look at these numbers -- for example, two years ago
23 we were pretty much using about twice the amount of our
24 Housing Assistance Trust funds for down payment
25 assistance. We have been very successful in reducing

1 this amount considerably so that it frees up Housing
2 Assistance Trust funds not only for other uses, but
3 frankly to preserve the housing trust funds for the
4 future. So we have been disciplining ourselves to do a
5 better job and not eating our young all at once.
6 The multifamily programs, we'll talk about
7 those. Again, we have tried to do some major
8 investments in that area. We'll talk our way through
9 it.
10 The money that we have in HELP and Habitat,
11 these are dollars that we expect with this investment,
12 particularly on HELP, we'll start having loans come
13 back, and we'll be able to fund that from repayments in
14 the future.
15 The GO bond programs are Prop 1C and Prop 46.
16 And then obviously the Prop 63 fund, which is the
17 homeless mentally ill, chronically mentally ill housing
18 program.
19 The next one is an overall sheet that, if you
20 look at the handout, will probably make you go blind,
21 but it does give you, by program area, where the $12.8
22 billion business plan summary is proposed as far as
23 production targets for us.
24 And with that, I'd like to have us go into the
25 individual areas and ask the senior managers responsible

1 to come up and talk and answer any questions about these
2 program areas.
3 CHAIRPERSON COURSON: Good morning.
4 MS. PARKER: Gerry and Chuck McManus.
5 MR. SMART: Good morning, Mr. Chairman, Members
6 of the Board.
7 The homeownership --
8 CHAIRPERSON COURSON: Gerry, before you start on
9 this, I think to facilitate this it would be my
10 suggestion as we go through if we've got questions,
11 let's take them as they occur on each of the slides and
12 deal with any questions as we go through.
13 Thanks, Gerry.
14 MR. SMART: Okay. Our homeownership business
15 production goals, as shown in the previous slides,
16 project a first mortgage financing volume of $1.5
17 billion for low and moderate income first-time
18 homebuyers. It also includes 78.5 million down payment
19 assistance that will come from the Agency's HAP funds
20 and the Prop 46 and Prop 1C bond programs.
21 Five-year total is 7.8 million, is our projected
22 goal. And as Terri had indicated, our goals are
23 predicated or based on tax-exempt bond authority that we
24 anticipate receiving in the next five years, prudent
25 levels of taxable bond issuance, recycling of existing

1 authority or repayments, and the carry-forward that we
2 have fortunately received in the last couple of years
3 from CDLAC.
4 Our strategies for the homeownership program
5 include providing 30-, 35- and 40-year fixed-rate
6 financing throughout California with the emphasis
7 focusing on low income homebuyers with -- by providing
8 low interest rate financing, continued efforts to
9 provide equity in the distribution of loans in high cost
10 areas, targeted areas, federally designated targeted
11 areas, continued assistance to teachers, administrators
12 and classified employees in low performing schools,
13 veterans assistance and assistance to disabled
14 homebuyers and self-help builders, individual
15 homebuyers.
16 We'll certainly continue our outreach efforts to
17 promote our programs, provide lender training and leads
18 to our loan officers in our lead program, lead
19 generation program.
20 The Agency has been working to develop a
21 mortgage-backed security platform with Fannie Mae for
22 our interest-only product. We've been hard at work on
23 that since the middle of this fiscal year. By
24 implementing this platform, we should provide additional
25 flexibility in homeownership and reduce the related real

1 estate risk. The advantage to the homebuyers is, of
2 course, reduced payments that they should see as a
3 result of reduced MI premiums.
4 We have selected Countrywide Home Loans as our
5 master servicer to securitize and service the loans, and
6 we anticipate completing the contracts by the end of the
7 month. That's between Countrywide, CalHFA, Fannie Mae,
8 and the trustee. If that goes as anticipated, then we
9 should be able to announce the program in June. So
10 we'll start the fiscal year with all of our performing
11 IO loans in the new MBS platform.
12 The homeownership automated business solution,
13 or the loan origination project as we referred to it in
14 the past, is designed to replace our existing Legacy
15 system, our reservation system. We'll do so with a more
16 robust platform that will integrate all loan process
17 across the Agency's business functions. That's
18 homeownership, accounting, mortgage insurance, debt
19 management and loan servicing. Our current system has
20 very limited capacity, does not communicate well with
21 these other business functions, and of course has
22 antiquated language that is no longer supported, so it
23 really is needing replacement.
24 We have planned for a more flexible responsive
25 system that will improve the information quality and

1 integrity, provide appropriate and timely access to
2 information, improve our business processes and
3 efficiencies, diminish our reliance on paper driven
4 process and improve our customer service. We've
5 essentially completed Phase I of that, including project
6 planning, the as-is assessment of our business
7 processes, defining the conceptual business model for
8 the full life cycle of the loan, evaluating alternative
9 solutions, particularly those used by other HFAs across
10 the country, and development of an RFP.
11 Now, as we have indicated in the past, this
12 project has been put on hold so that we could put in
13 place the MBS project, and once that's complete, we plan
14 to go out with the RFP this summer. And with the
15 selection of an integrator probably in the early or mid
16 fall.
17 We'll be signing four full-time homeownership
18 employees to the project, work with the other IT staff,
19 subject matter experts and the integrator that we select
20 to develop the system. The time line that we anticipate
21 to complete the project is probably in the neighborhood
22 of 18 months. Estimated costs for this coming fiscal
23 year, we anticipate or estimate at 1.4 million. This
24 is, of course, our best estimate without the benefit of
25 having gone out with an RFP.

1 The total project cost we estimate about 3.9 to
2 5.6. We worked with IT on these costs, and this is what
3 we anticipate for the system integrator, software
4 licenses, independent validation and verification,
5 project management and our personnel expenses to put
6 this project in place.
7 We will continue to explore opportunities and
8 relationships with GSEs to sell whole loans and
9 subordinate loans. That may include selling loans on
10 either a flow basis, forward commitment, or maybe a
11 portfolio basis. Fannie has indicated to us their
12 desire to buy more goal rich loans as they did last year
13 in the $66 million subordinate loan sale, so we look
14 forward to partnering with them and seeing what we can
15 do.
16 The advantage for us and what we would
17 anticipate is increased liquidity and expanding our
18 resource capacity. We'll also be working to implement a
19 new REO steering committee to monitor delinquencies and
20 foreclosure trends and our government loans
21 subordinate -- excuse me, conventional loan and our
22 subordinate loan portfolio.
23 The committee will also reevaluate our -- and
24 modify as necessary, foreclosure and REO policies and
25 give direction as applicable for the disposition of

1 problem REOs, those that perhaps have structural damage
2 or environmental issues that we need to work with.
3 And that concludes my comments. I'd be happy to
4 answer any questions.
5 CHAIRPERSON COURSON: Questions on the
6 homeownership portion of the goals?
7 Mr. Davi.
8 MR. DAVI: Thank you.
9 Terri, I just want to clarify, that last bullet
10 about the REOs effectively is talking about our
11 properties that we would take back. In addition or
12 included in that could be if we were able to vet that
13 concept that we had discussed potentially would fall in
14 that category if it was ever able to be worked out in
15 terms of solicitation of other REO properties that
16 lenders may have taken back priced below market, so to
17 speak, or at some level where they could reduce the
18 value of the property and sell it to a nonprofit for a
19 30-percent reduction and then if -- or sell it to a new
20 first-time homebuyer, rather, and we would help
21 facilitate that and the bank would get some kind of
22 credit for that in some terms of --
23 MS. PARKER: Mr. Davi, our business plan,
24 staffing plan, does not make any assumptions with
25 respect to that kind of a new program. Clearly we're

1 going to talk about increases in the operating budget
2 and increases in staffing, primarily around strategic
3 initiatives, so there isn't any proposed here.
4 I think what we have said, though, in our -- my
5 opening comments are that the HFA may be an entity that
6 could be used. There's probably discussions about
7 programs at the federal level, some discussions about
8 programs at the state level. There's nothing in the
9 business plan, but because of the subprime crisis
10 hitting, we may have some opportunity or some proposals.
11 We will be bringing those to you as they come up and
12 essentially having discussion about how these fit in
13 with the rest of what we're doing, resources necessary
14 for them, how they fit with our overall mission, et
15 cetera, et cetera, et cetera.
16 MR. DAVI: Okay. Thank you.
17 CHAIRPERSON COURSON: I might -- I might add
18 I've been engaged and shared with Terri on a national
19 basis on the subprime and obviously there's -- there's
20 plenty of proposals floating around Washington and every
21 legislator's office and agency. I'm doing some work to
22 try to consolidate those to see if there isn't a way to
23 get some unification of some of these efforts, both at
24 the federal and state level.
25 And some of the discussions have been

1 surrounding what role the HFAs should play outside of
2 their traditional role, and that's controversial, both
3 with state HFAs and what they feel their role should be
4 and any expansion of that. And so those are ongoing
5 discussions. Terri and I are going to be attending a
6 meeting in Florida where this is going to be a
7 wide-ranging discussion as to should the -- I think the
8 National Conference of State Housing Agencies and the
9 Board needs to make some decision about what, if any,
10 role the HFAs should plan. So that's a debate that's
11 ongoing.
12 The other thing I might mention, I had this
13 discussion with Bruce and with Gerry last night, is the
14 mortgage-backed securities. Clearly we're constrained
15 by perhaps some increased demand for our loans and
16 first-time homebuyers in these markets and constrained
17 by this bond cap issue, and clearly the MBS program is
18 only a first step. We're going to be, in effect, buying
19 back our own securities, and the next step is can we now
20 take these securities and is there a way to sell them
21 either to one of the GSEs or elsewhere to get it out
22 from under the bond cap so that we can create additional
23 liquidity, and that's sort of Phase II.
24 MS. PARKER: Yeah. I think we've talked to all
25 of you and reported to you the success of our sale of

1 seconds to Fannie Mae to the tune of $60 million of
2 liquidity this year and what that has meant from the
3 standpoint of the overall business plan. Fannie has
4 told us that they are very interested and have appetite
5 for more of those seconds. We have essentially said to
6 them our primary interest is getting this first program
7 done because of the opportunities to reduce costs to our
8 borrowers through less mortgage insurance, increase
9 our -- our -- reduce our demand for liquidity and in
10 that sense also have a better view of our program from
11 the rating agencies on Wall Street.
12 But we are looking at all of those things.
13 Again, it's just our way to try to deal with the
14 inadequacy of our capital capacity, but to be able to do
15 future programs. So as the Chairman said, each and
16 every one of these things is a -- you know, kind of a
17 major initiative, major accomplishment on our part. But
18 we see this as the future for where the Agency needs to
19 go in order to be relevant in the marketplace.
20 MR. CZUKER: Is there a way to sell loans and
21 still retain the bond capacity for future? I mean that
22 would be like having your cake and eating it too. So
23 you'd be able to book the loan, use CDLAC bond
24 allocation, eventually package it, sell the mortgage,
25 and if you're able to retain the bond cap capacity to

1 recycle it, is that possible?
2 MS. PARKER: Bruce, I don't know if you want to
3 come up to speak to this.
4 We had thought about having Bruce sort of walk
5 through a little bit of a discussion of our overall
6 portfolio and, you know, the -- that really is the
7 underpinning for the business plan that's presented.
8 So, Bruce.
9 MR. GILBERTSON: Thank you.
10 I think the notion that we've talked about to
11 expand the program without expanding the use of bond cap
12 would be one of two approaches. One is that we have the
13 ability in the Fannie Mae partnership agreement to sell
14 them whole loans at improved pricing.
15 So what that really means is that we would flow
16 loans to them at the yield that we would need to -- or
17 they would require. Okay. So we would never issue debt
18 to purchase the loans, but we'd use internal warehousing
19 facilities for a short period of time and then flow
20 loans as often as monthly.
21 The other opportunity that we could have is we
22 could, in lieu of doing whole loans, securitize loans
23 again and sell them directly to the marketplace or
24 Fannie Mae. All of that is highly dependent on the
25 pass-through yield that would be required of Fannie Mae.

1 MR. CZUKER: Is that also dependent on the bond
2 volume cap going with it?
3 MR. GILBERTSON: No, because we would not -- we
4 would still use the bond cap to purchase either whole
5 loans or MBSes at a below-market rate, but it would be
6 at a rate sufficiently high to support the debt
7 financing.
8 Does that help, Ed?
9 MR. CZUKER: Not really. I'm still confused.
10 MR. GILBERTSON: Well, I think, you know, our --
11 let me back up and start with a more complete answer,
12 perhaps. The business model for the Agency has always
13 been to issue bonds, use the proceeds from the bond
14 issues to acquire the mortgage assets.
15 You know, this first step with the MBS program
16 will be to, in lieu of purchasing whole loans, purchase
17 securities that we create from the underlying mortgages
18 that our lenders originate. Okay.
19 Beyond that I think to expand the program
20 volumes, there's two other opportunities that
21 potentially may exist, and that is in lieu of ever
22 issuing debt, we would purchase loans from originating
23 lenders and then sell them either in whole loan form or
24 in an MBS form directly to Fannie Mae.
25 MR. CZUKER: Never using bond volume cap in that

1 whole process.

2 CHAIRPERSON COURSON: Never issuing debt for

3 that purpose.

4 MR. CZUKER: So how do we recycle, perhaps, the

5 volume cap we already have or are able to get in the

6 future so that we get two or three bites at the apple

7 with the same volume cap?

8 MR. GILBERTSON: We do that, and we have been

9 quite successful. Remember, there is a limitation in

10 federal tax law, the ten-year rule that requires you,

11 after ten years from the original date of issuance, that

12 all principal, be it in the form of repayment or

13 prepayment, must be used to redeem bonds. But during

14 that first ten-year period, we recycle in one of two

15 ways. We either refund the debt and reissue debt at the

16 then market rate or we recycle loans directly back into

17 those finances. So we --

18 MS. PARKER: Mr. Czuker, maybe one way to

19 provide a good visualization for this, our assumptions

20 to do a billion and a half next year assumes that we

21 will be getting -- how much?

22 MR. GILBERTSON: 300 million per year.

23 MS. PARKER: -- 300 million. The balance of

24 that is going to be made up through taxable and

25 recycling, which is exactly what you are talking about.

1 So it's a -- it's almost a third, a third, a third or a
2 little greater. I mean, our leveraging of new bond cap
3 is, you know, phenomenal. And that -- that really is
4 our main challenge. I mean, at one point in time, we
5 were leveraging every new dollar bond cap with another
6 three dollars, on a, you know, four-to-one basis.
7 Because of the increase -- or the reduction
8 in -- between taxable and tax exempt, it hasn't been as
9 successful, but that's how we leveraged to do so much
10 volume with really so little tax exempt new bond cap.
11 To the extent that we can get more of that, you know,
12 that will essentially help us. If the current market
13 is -- if rates go up, then we may be able to do more
14 taxable and still be relevant in the marketplace. But
15 those are the things that Bruce and his folks and our
16 debt management folks are looking at and dealing with on
17 a daily basis.
18 MR. CZUKER: Thank you.
19 CHAIRPERSON COURSON: Other questions?
20 Thank you.
21 MS. PARKER: Mr. McManus.
22 MR. McMANUS: Thank you.
23 I take you to the next slide. It indicates
24 mortgage insurance production. I'd just like to remind
25 the Board that all conventional loans go through what is

1 called the mortgage insurance department. We have the
2 credit underwriting function for all conventional loans,
3 which is about 80 percent of the production. Of that,
4 45 percent of the total production is what I'm
5 forecasting will require mortgage insurance, will have
6 less than 20 percent down. The balance is generally
7 80-percent loan to value loans that have second
8 mortgage, third mortgage and fourth mortgage assistance.
9 Our average combined loan to value is 98.5.
10 So we don't get much borrower cash into our
11 loans. To the extent we are successful in getting low
12 income people, most of those are coming with down
13 payment assistance, so the more successful we are in low
14 income, the lower percentage the mortgage insurance is.
15 We ran about 55-percent mortgage-insured loans
16 this fiscal year. I'm forecasting 45 percent. I will
17 not dictate that. The market will dictate that. But I
18 think it's reasonable to assume about 45 percent will
19 have mortgage insurance and 55 percent of the
20 conventional will be 80 and under and a high share of
21 that being low income.
22 On the new product opportunities, you're aware
23 of the tightening of underwriting by the Comptroller of
24 the currency and in turn OFHEO, who regulates Fannie Mae
25 and Freddie Mac. On interest-only loans, they now

1 require that the loans be underwritten as if principal
2 was also going to be paid along with the interest only
3 and then spread over the total term of the loan. That
4 will tighten on our interest-only product. Where we've
5 been underwriting at the interest-only payment, it will
6 now be interest only plus principal. In our current
7 product divided by 35 years, it will reduce the
8 affordability. I expect a 10-to-15-percent drop in
9 volume of people qualifying because of that tighter
10 underwriting.
11 To somewhat counteract that, we will be working
12 on a 40-year interest only, which has a ten-year
13 interest-only period, and that will allow us to use a
14 40-year amortization, which will make a more affordable
15 payment for underwriting purposes. The interest-only
16 payment is identical to our current one. That doesn't
17 change. Interest is interest.
18 So we will be working on doing that to increase
19 the affordability of our interest-only product, which is
20 particularly useful to the moderate income people and
21 also in high cost areas.
22 CHAIRPERSON COURSON: Chuck, will that still
23 be -- will the 40 year still be eligible for the Fannie
24 Mae MBS?
25 MR. McMANUS: Yes. It is within the affinity

1 agreement and therefore eligible, and we're all set to
2 handle it technically also, so it will just take us two
3 or three months probably.
4 Next we introduce the lower cost MI coverage.
5 The Fannie Mae commitment reduces -- we have 35-percent
6 cover on every loan now. As part of our bond indenture
7 we actually guarantee 50 percent. 35 percent is
8 provided by the mortgage insurance fund. The additional
9 15 percent, also the mortgage insurance fund but
10 indemnified by the Agency. So that 50-percent cover is
11 in our bond indentures.
12 By selling to Fannie Mae, we will only be
13 providing 20-percent coverage on the hundred-percent
14 loans, 18 percent on 97 LTVs and so forth. The balance
15 of that coverage will now be covered by Fannie Mae.
16 That is an advantage for exposure to the Agency in case
17 there are big disruptions in the mortgage market.
18 Secondly, the price on a 100-percent LTV, 35
19 percent covers 85 basis points. On the 20-percent
20 coverage, it's 59 basis points. It will be, in effect,
21 a quarter-percent reduction in payment for the
22 borrowers. So good for borrowers, good for the Agency.
23 And those will be introduced simultaneously with the
24 Fannie Mae program.
25 Finally, the credit risk and property risk,

1 which everybody reads about in the paper every day with
2 the foreclosures and watching these and managing our
3 portfolio and trying to mitigate losses where we have
4 defaults, we're spending a lot of time making sure we're
5 not making big mistakes, concentrations of risk and so
6 forth and monitoring the markets where there are
7 declines, making sure our appraisals are showing that
8 decline and trying to protect us against big losses.
9 So that's what we're doing. Any questions?
10 CHAIRPERSON COURSON: Questions on mortgage
11 insurance?
12 Thanks, Chuck.
13 MS. PARKER: Then I'll ask our multifamily and
14 special lending folks to come up and...
15 MS. WHITTALL-SCHERFEE: We thought we would
16 start our discussion with a discussion of our production
17 goals for next year. We are focusing on $90 million of
18 construction and permanent lending for next fiscal year.
19 That's divided up $30 million on permanent loans and $60
20 million on construction and rehab.
21 We mentioned a little bit at the last Board
22 meeting that the reason we're doing a two-to-one spread
23 on our construction and rehab versus our perm, because
24 construction loans are closer to four to one, is because
25 we're seeing more and more emphasis on rehab. It's

1 going to be both portfolio rehab as well as rehab deals
2 that are currently in somebody's portfolio.
3 MR. GIPSON: For the next fiscal year we're
4 showing 15 million in the Bay Area Housing Plan, which
5 is the balance of -- the difference between the 105 and
6 120 of the preliminary approvals we received. There
7 will still be a great deal of work involved with going
8 through the construction process and stabilization of
9 the projects and then final conversion to the permanent
10 loan stage along with all the bond sales that will need
11 to take place when that happens.
12 But for the dollar amount itself, it only
13 reflects 15 million, but it does not reflect,
14 unfortunately, the amount of work that's going to be
15 involved in moving that through the process for next
16 year.
17 In addition, we have a new housing program
18 starting or which has started, which is rather large,
19 which is the Mental Health Services Act Housing Program.
20 In partnership with the Department of Mental Health,
21 we'll be administering this program.
22 It started up under the Governor's executive
23 order, and basically the goal is to provide 10,000
24 additional units. We'll be getting 75 million a year
25 for capital primarily and up to $40 million a year for

1 operating subsidy.

2 This is a program that is starting from the

3 ground up, scratch. There have been numerous work

4 groups with out -- internal state agencies, outside

5 stakeholders, developers, the County Medical Health

6 Directors Association, DMH, tax credits, to get this

7 together.

8 Basically it is a new housing program. We'll be

9 providing up to one third or a maximum of a hundred

10 thousand dollars per unit for special needs mental

11 health housing targeting those who are at risk of

12 homelessness or are homeless. From this, we will have

13 to develop everything from how the operating subsidy

14 will be calculated and how all the capital will be

15 disbursed. There are rules in the Mental Health

16 Services Act that require equity distribution among the

17 different counties, so each county will actually have

18 its own allocation that we will actually have to monitor

19 and watch as well, as those projects come forward.

20 To date we have the term sheet, the program

21 description. We're working on the application. As part

22 of the Governor's executive order, there are

23 requirements that we provide information to the

24 Legislative Analyst's Office. That report is in draft

25 form. They are allowed to have 30 days to take a review

1 before we move forward. The expectation and hope is that
2 we will be out somewhere mid to late June with a
3 program.
4 Department of Mental Health is going to advance
5 to us $400 million, which will be about three and a half
6 years' worth of allocation to start the program.
7 Multifamily programs is kind of being the point group
8 for the Mental Health Housing Program, but we're also
9 working internally with asset management as well, who
10 have the responsibility of administering the operating
11 subsidy. And we expect commitments to be somewhere, 15
12 million for capital for our next fiscal year and another
13 30 million for operating subsidy.
14 One more initiative. They keep me busy. The
15 Homelessness Initiative Lending Program, it's really a
16 supportive housing program dealing with homelessness and
17 those needing supportive needs. It shows $5 million
18 here. We expect to put $5 million out this year and
19 $5 million out next fiscal year. You've seen it in the
20 previous budget. It's for a loan program to a nonprofit
21 entity that will do predevelopment and acquisitions
22 loans to jump start special needs housing projects in
23 areas.
24 So we have an applicant. They have a program
25 put together. They will focus primarily in the

1 beginning on L.A. and Bay Area and San Diego type areas,
2 not necessarily exclusively, but those are the ones that
3 they've targeted where they can find the need and the
4 demand.
5 It is truly supportive housing. This will be
6 recourse lending back to the nonprofit, so they will be
7 responsible for those loans. They have set aside a loan
8 loss reserve to help buffer that, and so the Agency will
9 make them an interest loan, basically, between 2.7 and 3
10 percent, depending on what year it is. And they will
11 turn around and re-lend those funds. So that will be
12 coming on shortly here, and so we will have another tool
13 in the arsenal, if you will, to help develop affordable
14 housing, particularly the special needs housing.
15 MS. WHITTALL-SCHERFEE: For several -- oh, I'm
16 sorry.
17 MR. CZUKER: Go ahead and finish and then I had
18 a question.
19 MS. WHITTALL-SCHERFEE: No, no.
20 CHAIRPERSON COURSON: Go ahead.
21 MS. WHITTALL-SCHERFEE: Okay. For several years
22 we've had a multifamily working group within the Agency.
23 This year we took on the task of trying to determine
24 ways to make multifamily more competitive in the
25 industry.

1 We've known for several years that there have
2 been issues that have been of concern to our borrowers,
3 and our feeling was that now is a really good time to
4 take a look at them, especially since we were also
5 looking at a new database system, Prolink, because
6 there's no point in coming up with a database and then
7 deciding that you're going to change some of your
8 fundamental program requirements and how we wanted to be
9 viewed and how we wanted to promote our programs in the
10 industry.
11 So we developed the multifamily competitiveness
12 initiative. The first section that I'm going to talk
13 about is more of our programmatic changes. One of the
14 things that we have been doing for years is really using
15 interest rates and determining our interest rates based
16 on Libor.
17 And we took a look at the various opportunities
18 that we have and decided that we could provide more
19 competitive interest rates in the industry if we went to
20 what was then BMA and I understand is now -- I can't
21 pronounce it correctly, but its S-I-F-M-A -- SIFMA, if
22 we used that index. And so we've developed a
23 competitive construction loan interest rate program that
24 we just rolled out last month based on the SIFMA.
25 We've also taken a look at the kind of fees that

1 we charge as part of our regular program. We had things
2 like legal fees that we were adding on to our standard
3 package. And we've taken a look at the spread that's
4 allowed and decided that things like legal fees are not
5 fees that we're going to collect at this point in time.
6 Our processing has been very effective, but it's
7 been a very, very paper-based, very, very extensive
8 process that sometimes got in the way of the goals and
9 the guidelines that the developers had and -- and when
10 they needed to close.
11 So with Prolink, which I'm going to talk about a
12 little bit later, we have decided to go to a more
13 electronic-type system. This electronic system is going
14 to work very well with the whole universal application
15 that was tasked to all of the major state agencies in
16 housing. TCAC, CDLAC, HCD and CalHFA were all asked by
17 the Governor's Office to come up with a universal loan
18 application.
19 We are incorporating this into our production
20 process. We're using it right now, but it's going to
21 actually be an electronic part of our new database
22 system.
23 Processing also involved more fundamental
24 things, just looking at how many times paper needs to be
25 touched and who needs to really look at things and who

1 needs to review and approve things. So we've been going
2 through some of that, not always in the competitiveness
3 of a multifamily working group meeting, but internally
4 within our own department.
5 The seismic review process, our seismic
6 standards, the damage ratio that we required was much,
7 much more conservative than the rest of the industry.
8 We have not loosened to the industry levels. Our
9 standards are still more stringent, but we also
10 recognize that we can't expect borrowers to add hundreds
11 of thousands of dollars of seismic costs to the
12 buildings and still expect to ever have construction
13 loans come to us again. So we are more realistic now in
14 our seismic review standards.
15 We've also taken a look at earthquake insurance
16 because we know that earthquake insurance providers are
17 not providing the same level of earthquake insurance
18 coverage. So what we've done is added the opportunity
19 for acquisitions/rehab projects to get the seismic
20 review process and get an earthquake insurance waiver.
21 Prior to this no rehab project was eligible for an
22 earthquake waiver regardless of what kind of seismic
23 retrofitting had been done, and that just didn't make
24 sense. So we are encouraging seismic retrofit and
25 giving the carrot of an earthquake waiver if -- if the

1 borrower will do seismic retrofit to those levels.
2 MR. GIPSON: As a part of that multifamily
3 competitiveness initiative in the working group that we
4 have is the architectural review manual that fits inside
5 there. These are all -- along with interest rates and
6 fees, it's all a package deal to every developer that we
7 see. I handed out or had -- a list of what we've added
8 or changed, so a three-page document, changes, and some
9 of the additions to what have happened to the manual.
10 It's gone through many iterations and rewrites
11 and consolidation, if you will. It is a more
12 streamlined manual. It just is. Some of the things we
13 are not tracking anymore were things that were covered
14 by other codes, state building codes, local building
15 codes and so repeating them in our own way just didn't
16 seem necessary anymore.
17 And we've tried to add flexibility to the
18 process. That's part of the key thing, is now we've
19 always encouraged early review, but we're getting out
20 there and doing that as such, but the big one is now
21 there's also a waiver process. If there's an issue with
22 your design, let's -- we have a waiver process. Let's
23 get it down, get it discussed and get it clarified
24 quickly. I think historically there has been, you know,
25 maybe some agreement but not total clarity. We're going

1 to provide clarity so everybody knows that issue is done
2 and gone and we're ready to move forward and everything
3 that falls in line.
4 We all know architectural issues, you can't just
5 touch one thing and it doesn't cause an impact to
6 another wall or another building.
7 CHAIRPERSON COURSON: If I could, I think
8 Ms Jacobs has a question.
9 MR. GIPSON: Absolutely.
10 MS. JACOBS: On the architectural standards, can
11 you tell me why you are still requiring copper pipe?
12 MR. GIPSON: I can't specifically say why
13 we're -- its requiring copper pipe, but I can say we've
14 accepted other forms already. And so where it hasn't
15 hit the actual manual, per se, at least in the current
16 one, we have tested out other versions of piping.
17 MS. JACOBS: I'm going to suggest that the
18 building code just changed so that copper pipe is no
19 longer required. And I'm going to further mention to
20 you that with the new lead requirements in 2010, copper
21 pipe is not going to meet the test --
22 MR. GIPSON: That's right.
23 MS. JACOBS: -- so I think that you need to
24 change that.
25 MR. GIPSON: And it's completely under review.

1 Thank you. That's right at the top of one of --
2 unfortunately, one of a handful of issues. That's a
3 very good point. Actually, I do appreciate you pointing
4 that out.
5 A lot of this process that we've gone through is
6 we have met with a good number of the developers we work
7 with and more particularly a good number of the
8 architects, and that's limited to some of the engineers
9 as well, about issues just like that, you know, what are
10 we requiring and why we're requiring it, what is the
11 process, what is it reviewing. And the key one is when
12 are you stopping the review? When do we know we're
13 actually --
14 MS. JACOBS: Finished.
15 MR. GIPSON: -- done? Yes. And I think that's
16 a fair question because when you're going through the
17 process, every time you touch something, something else
18 keeps moving. So that's been very difficult. But
19 meeting with all those outside groups, meeting with the
20 developers, having the internal meetings with our own
21 staff about what they've seen and what they've heard,
22 we've come back, and each time we've had a compilation
23 of different comments from different groups.
24 Nobody is fully agreeing on any one issue. I
25 can honestly say that. Some say this. Some say this.

1 Some are criss-crossing across the top of each other
2 about, you know, what the real issue is. Certain
3 developers have even higher standards than we do.
4 Great. That's great. We went to try to set about a
5 floor, and we went about to set some flexibility for if
6 it makes sense, we're going to try to help you get
7 there, just plain and simple. So we've taken all that
8 output.
9 You don't happen to have a copy of the draft at
10 the moment, but there's still -- there's still issues
11 about, you know, when air conditioning is required,
12 where it's required when you're along the coast, things
13 still about the copper pipe, what can be used, what's
14 its durability, what's its life. Those types of issues
15 still exist.
16 And so -- and a big one has been the cabinets.
17 We have historically collected cabinet samples because
18 the quality varies up and down unless you hit the
19 highest quality standards. So we've met with cabinet
20 makers to try to get some type of spec and understanding
21 of certain levels so we can give you options. You can
22 choose higher or you can choose this other level.
23 CHAIRPERSON COURSON: I've got hands shooting
24 up, but I'm going to have the prerogative of the Chair
25 and ask a naive question.

1 MS. JACOBS: It will be my line of questioning,
2 I have a feeling.
3 CHAIRPERSON COURSON: Well, it seems to me if
4 we're waiting to get everything right or are -- are we
5 putting these changes in -- as we can put changes in,
6 are we putting them in, or are we waiting to get one
7 architectural review revised document out there?
8 MR. GIPSON: No, the -- we're actually not
9 waiting on anything. This is actually one of those
10 things that I don't care how fast you run, it's like
11 8,000 things coming at you at the same time.
12 We're completely moving forward. The hope is to
13 have it out here in June, real quickly. The real hope
14 was to have it now, but some comments came back and some
15 cleanup items when we made -- went through the last set,
16 all the conflicting stuff, we actually had to sort
17 through. We will have one more internal review. And it
18 will go out. And the process --
19 CHAIRPERSON COURSON: That's --
20 MR. GIPSON: Oh, I'm sorry.
21 CHAIRPERSON COURSON: No, I'm sorry. I don't
22 want to interrupt.
23 MR. GIPSON: And then the process will be when
24 you read it, it will say, "If you have any additional
25 comments, feel free to submit those," and we will set up

1 some time line where we will start incorporating things
2 on an ongoing basis as -- so we've changed that process
3 as well.
4 CHAIRPERSON COURSON: That's my point. I think
5 you've got to put a marker out there and it's done. And
6 this is a living document. This is going --
7 MS. PARKER: And that's right. It's a dynamic
8 document.
9 CHAIRPERSON COURSON: -- to be something that
10 you're going to continue to take a look at issues, just
11 like the copper issue or other things that come up. And
12 I think this is a working document that's going to see
13 changes on a fairly frequent basis.
14 MR. GIPSON: I a hundred percent agree. And
15 that's why the only thing with the last review is to
16 tell everybody what we -- what we were doing.
17 CHAIRPERSON COURSON: Ms. Galante and Mr. Czuker
18 and Ms. Jacobs.
19 MS. GALANTE: I'm going to maybe -- I don't
20 think it's a naive question, but I want to take this
21 conversation back even further, and it may be that we
22 should have a whole separate conversation on multifamily
23 architectural review.
24 You know, I think all the initiatives that
25 you're presenting in terms of competitiveness are

1 terrific. I think the architectural review has been a
2 bugaboo for this Agency for -- since I've been doing
3 business with the Agency. And it has improved
4 significantly over time, and yet it needs continual
5 improvement if the Agency wants to be competitive in
6 multifamily housing production. I think that's just a
7 fact.
8 So the real question I want to ask is why do we
9 have standards at all? And, you know, I mean I'm really
10 serious about that question. I mean, is it a statutory
11 mandate, a requirement? Is it something this Board can
12 have a conversation about? Why are we doing this when
13 other permanent lenders simply do not? They rely on
14 local building codes. They rely on local building
15 standards, local design review. And, you know, I
16 just -- I've never understood and I don't think I've
17 ever gotten a clear answer why we do this.
18 MR. GIPSON: I'll start with I don't know that
19 it's an actual regulation that it has to be there. I
20 would say as -- in comparison to the outside and to the
21 governmental and what appears to be the use of public
22 funds here, I think there's going to be some expectation
23 which must have started 30 years ago, way prior to my
24 arrival, particularly to our services in the last year
25 and a half, that there needs to be some minimum standard

1 of the quality type of project that we're going to be
2 involved with and making sure that the sustainability of
3 that project is going to last a full term of 30 years.
4 One of the places where we vary from the outside
5 was the sheer fact that we, particularly in the history,
6 had a no prepayment, no refi policy, which meant you
7 better have built that project very well for the term of
8 the loan.
9 Well, if you go back a couple years ago now, we
10 now have the -- what's 30/15, which we can prepay after
11 year 15, which helped it out. Because the reality is
12 every project is going to need a little bit of rehab.
13 But I think when I -- when I look at the architectural
14 guidelines and look at the history, you're right.
15 Without a doubt those guidelines added some costs and
16 price.
17 But when based against the outside sector, they
18 did do their cost review, they relied on their architect
19 telling them when they did their review that, yeah, and
20 that was basically a market-type project of a reasonable
21 quality. And I think what the Agency did is took
22 another approach and said, "This is the type of quality
23 we want to see, and we'll be okay."
24 And the bank would just say, "I don't want to do
25 that deal because I don't like that product," and they

1 tended to develop great relationships with wonderful
2 developers who over time did put out a quality product,
3 and when they didn't, if they were doing a project with
4 someone who didn't, they just never got involved with
5 them, so.
6 MS. PARKER: Ms. Galante, let me just add to
7 this because -- just from the standpoint of longevity,
8 of being here longer. I think Edwin has given you a
9 very fair assessment.
10 The dilemma -- here's what we've found out. I
11 think some of it is just old pace. We -- because we
12 were lender of last resort and we figured that these
13 products were going to, you know, be there for a long
14 period of time, we felt we were different than some --
15 some entities in the marketplace who were doing projects
16 that may be essentially, you know, just trying to be in
17 there for the tax credit and then flip them.
18 And so the question has been asked of us, well,
19 there's a number of our partners who are -- you know,
20 have the same public benefit goal that we do, so why
21 should we be second-guessing people who have clearly the
22 same benefits we do? We have asked ourselves these
23 questions.
24 And some of them are not the best answers. We
25 struggle with trying to have guidelines as a state

1 entity that people can look at and say everybody has to
2 adhere to them, whether they're, you know, X, Y or Z
3 because if we don't, then we get into a situation about
4 whether we as a government entity are treating everybody
5 the same, and I think that has presented complications
6 for us.
7 You know, that's the reason why we are in this
8 process that we have been in to really go through this.
9 This group knows that if we don't do something about
10 this, we aren't going to be doing products. We aren't
11 going to be doing programs. So we have to be responsive
12 to this.
13 And I think this is a point in time. I don't
14 think that we are done with it by any stretch of the
15 imagination. But if we -- you know, if we wanted to
16 essentially for the Board get the benefit of, at a
17 future meeting, having some time to sit down and talk
18 about this, I think it would be very helpful for us.
19 But I want to just give you some sense -- and some of
20 those things are old reasons that we now, because of
21 going to reduced time frames, we don't need to deal
22 with.
23 But I think we're trying to struggle with what
24 should be some minimum requirements that we should hold
25 people to. Because there are some people who perhaps

1 don't have the same quality concerns as other developers
2 do, and then we get into the situation of how do we, you
3 know, demonstrate from a public standpoint that we
4 aren't, you know, treating different people differently.
5 CHAIRPERSON COURSON: I think, Ms. Galante, if
6 you'd like, let's ask to put that on our July agenda
7 meeting and see if we can't have a more robust
8 discussion. By that time the final document or at least
9 the iteration that's going to be published will be out.
10 We can take a look at that. And I think it's an agenda
11 item that's worthy of discussion, so we'll do that.
12 MR. HUGHES: Mr. Chair. Part of Ms. Galante's
13 question was whether there's any statutory requirement,
14 and off the top of my head, I can't think of anything
15 that requires specific architectural mandates, but we do
16 have a general mandate to finance safe and sanitary
17 affordable housing. So to the extent that part of that
18 is obviously the asset management function of ongoing
19 regulation, but to a certain extent I think it's
20 historically implied some sort of standards, whether
21 they have to be specific architectural or --
22 CHAIRPERSON COURSON: I think when we have our
23 discussion, there are lots of pieces. There's this
24 piece. There's clearly indenture and the securities
25 piece. There's, you know -- there's clearly the

1 statutory piece. I think all that should be part of
2 that discussion.
3 I promised Mr. Czuker next and then Ms. Jacobs.
4 MR. CZUKER: Thank you, Mr. Chairman.
5 I'd like to focus our attention back up to the
6 first line, construction and permanent 90 million, which
7 is broken down for us as 30 million for permanent loans
8 and 60 million going for rehab as well as new
9 construction.
10 I am very disappointed with that number. That
11 is a tremendous lack or small goal for an entire year of
12 production. $30 million in permanent loans could be one
13 or two deals, if the deal was sizable, like a hundred
14 units or more in a high cost area. So to have a goal of
15 one or two projects for an entire year, all of permanent
16 lending, is very disappointing. It should be perhaps
17 ten times that number. Similarly with the rehab and
18 potential -- and new construction potential, that could
19 also be ten times that number.
20 So I realize there's some internal restructuring
21 going on and we're looking for a head of multifamily,
22 but to reduce our goals for -- for a year going forward
23 to that low level is disappointing as well as perhaps
24 not serving the greater good of the need for affordable
25 housing in multifamily that exists out there and in all

1 categories, rehab, new construction and multifamily.
2 And does that mean you can only do small deals
3 now because your cap or volume in your five-year plan is
4 so small that we're now going to be stuck with small
5 deals?
6 And just to remind other Board members, perhaps,
7 in past years, if you go back a handful of years, our
8 goals were two to three hundred million for permanent
9 loans alone.
10 So, you know, I'd like you to, please, address
11 why and is there a way to try to be a little bit more
12 aggressive than these dismal numbers of production 12
13 months going forward.
14 MS. WHITTALL-SCHERFEE: I'll start by answering
15 your question. Regarding the dismal numbers that you're
16 seeing before you, those dismal numbers, in fact, exceed
17 what we intend to do this year.
18 We've discovered that in the last three years --
19 when we jumped into the construction loan industry three
20 years ago, yes, we had $10-million construction loans as
21 a matter of course. We also found that enough
22 construction lenders thought that our program would
23 fail, and they pulled out of the market. So for some
24 time, we were not the only game in town, but we were the
25 most competitive game in town.

1 Those lenders discovered that they could still
2 make money, and, in fact, they had deposit bases. They
3 had all kinds of other sources that they could use to
4 lure borrowers to them.
5 We don't have that same ability, and what we
6 have noticed is that the market has become very, very
7 competitive. I speak to developers all the time, and
8 what they're telling me is -- in one case, a developer
9 told me that -- it was a nonprofit developer, that she
10 had gone to a lender that had made a proposal that had
11 responded to an RFP proposal and said, you know, if you
12 lowered your construction and your perm rate half a
13 percent, I'll go with you. And she said she did not
14 think they would even consider it. They did it without
15 blinking an eye. They waived all their fees. They --
16 they -- the industry is incredibly, incredibly
17 competitive. The housing --
18 MR. CZUKER: You're focusing on the construction
19 side of the business, which is relatively new for
20 CalHFA, and I'm focusing more on the standard business
21 of permanent loans, primarily -- both multifamily
22 permanent loans and if we're getting into
23 accusation/rehab, which primarily is larger dollar
24 expenditures to acquire and rehab a building that
25 already exists. It would be higher dollar volume and a

1 permanent loan.

2 MS. WHITTALL-SCHERFEE: Okay. To address, then,

3 acquisition/rehab and permanent loans, those loans, we

4 have been seeing, have been traditionally smaller. I

5 think if you look at the loans that you saw come through

6 today, they're $4-million loans.

7 That said, it's still a very competitive market

8 out there. We think that this goal, for at least the

9 next year, is one that we can meet. We found that the

10 goal that was set for us last year -- I mean, we can set

11 big numbers, but if the -- the volume can't be met, I

12 would much rather see realistic numbers that we can

13 truly, truly meet.

14 So four to five million, if you're looking at

15 rehab, that's quite a few projects.

16 MR. CZUKER: If you're --

17 MS. PARKER: Maybe another way to say this is,

18 you know, we're not -- we're trying to give you some

19 numbers that we think are realistic in the marketplace.

20 I think there are some other factors, if you

21 look at the -- the deals or the requests for money

22 coming through CDLAC and TCAC, the number of deals have

23 been reduced from what there have been in prior years in

24 some of those programs because of the increased costs.

25 So, you know, its -- the competitiveness has been, you

1 know, less than it has been because of, you know,
2 their -- some of these projects are more and more
3 difficult to do.
4 You know, we have exceeded -- our business plan
5 for homeownership this year was a billion-five. We're
6 doing a billion-seven. If we have an opportunity to do
7 a greater amount, we're going to do that.
8 But one other thing I would like to point, to
9 the Board, out -- and this is really Laura's shop and
10 her part of the business. At the same time when we have
11 reduced our, what we'd say our core, and we're trying to
12 get back into that with the competitive initiative, the
13 work that we're doing on special lending, the housing
14 homeless program, the Bay Area, they aren't particularly
15 big numbers, but the complexity of what we're doing
16 there isn't done by anybody else.
17 And so what we have sort of done, and I've
18 talked about this before, is during this period where
19 we, you know, felt perhaps we might not be as
20 competitive with some of the private bankers, who,
21 frankly, you know, these are lost leaders for them. We
22 can't compete with that because if we do, it's all going
23 to come out of housing trust funds, and I don't know if
24 you'd want to commit that much resources, because we'd
25 be through it in a heartbeat.

1 But during that period, that we could
2 essentially be focused on some of these special needs
3 housing, a good area for us to, you know, do a public
4 benefit mission and in that sense try to be going
5 through some of these competitive issues so that we can
6 help get back into -- from either a pricing standpoint
7 or cost to our competitors. But even if we do get back
8 in the market, it's going to take us a little bit of
9 time.
10 MR. CZUKER: When I talk to stakeholders and
11 borrowers of CalHFA up and down the state, what I'm
12 hearing on a permanent loan, multifamily side, is we are
13 relatively competitive. In the 5, 5.2, 5.3 permanent
14 loan environment, the ability to come to CalHFA for a
15 permanent loan is competitive.
16 And so the complexities and competitiveness of
17 some of the other things we were discussing, including
18 architectural review, has scared the people away from
19 applying to CalHFA because of prior reputation, prior
20 experience of bureaucracy and process and cost.
21 And, you know, I commend you for going through
22 and reevaluating how to streamline and make our products
23 more competitive, but at the same time there is a huge
24 need, both in acq/rehab and in new construction in the
25 permanent loan side, which is barely being scratched by

1 everyone out there. And to see budgets where we were in
2 the past at two to three hundred million in permanent
3 loan reduced to 30 million, maybe it's because we're
4 going through some internal restructure, but it's not
5 really serving the total need and demand that exists out
6 there that I'm experiencing and hearing firsthand.
7 MS. WHITTALL-SCHERFEE: I can tell you that my
8 staff is out there looking for deals. And, you know,
9 that is our primary goal. Edwin and I are out meeting
10 with our counterparts in the public.
11 What we have found is over the last couple of
12 years there is a greater interest in combining
13 acquisition financing with permanent financing,
14 construction financing with permanent financing. Where
15 we met that need as a permanent financing lender years
16 ago, that is just not something people are as interested
17 in, and so it's the whole package we have to look at.
18 And you're right. It's the architectural
19 review, and it's all of those things that are part of
20 our competitive initiative. And nothing would please me
21 more than to be able to come back to you anytime during
22 this fiscal year and say, you know, those numbers just
23 were way too low and I really need to let you know that
24 our production is going to go through the roof, because
25 that is our goal. That is what we're here to do.

1 MR. GIPSON: And there has been -- there has
2 been a fundamental shift in the market that, you know,
3 just a few years ago when you look at our rates, our
4 rates were very good. We were, you know, about 20 basis
5 points below market. So when you're 20 basis points,
6 you know, process is less of an issue.
7 But now, just as you've said, we are competitive
8 and we're in the mix, and we're not necessarily always
9 in the low end of the mix. Sometimes we're in the high
10 end of the mix. And that is when everything from
11 interest rate to loan fees to processing to timing to
12 the architectural manual comes into play. And this is
13 exactly why we started this process when we looked back.
14 Another shift is -- is that when we were in perm
15 financing, the banks were mostly into construction
16 financing, and things both evolved and the banks got
17 into construction and a little bit more perm. And I'll
18 tell you one of the most favorite things I've heard
19 is -- talking to one of my fellow bankers is what --
20 "Hey, where are you with rates?"
21 Well, they never like to tell you that anyway,
22 but the clear answer is, "Well, whatever yours is, mine
23 will be lower," because I post my rate. You know
24 exactly what I am, so all you have to do is challenge me
25 with five little basis points and you've got it and not

1 the same process.

2 So it has been a very tough year. And I think

3 those numbers, they're not rosy and glory. We're not

4 happy with them, but either we have to -- we have to

5 work on process. We have to be able to work on our

6 costs of funds so we can do something about our rate so

7 that we can get back in the game. And we need to work

8 on building back the relationships.

9 MR. CZUKER: Well, I agree with everything you

10 said. The one last point that I'd make is I think

11 there's also a tremendous opportunity with the aging

12 population and the aging nature of the existing housing

13 that's out there, that you're going to see more

14 opportunity in the acquisition/rehab and rehabilitation

15 of older structures to make them habitable and give them

16 extended useful lives, especially as infill areas are

17 already completely built out and the competitiveness and

18 cost of building new construction is so dramatically

19 more expensive than rehabilitating old existing

20 structures that instead of demolition and new

21 construction, you will see rehab as a viable affordable

22 housing alternative.

23 MS. PARKER: We have this with our own

24 portfolio. I think Margaret will talk about -- you

25 know.

1 MR. CZUKER: I've taken enough of your time.
2 CHAIRPERSON COURSON: Thank you. Thank you. A
3 very good discussion.
4 Ms. Jacobs.
5 MS. JACOBS: I do think that -- this was not
6 what I was going to say, but I do think that it is in
7 our purview as the Board to say we'd like to see some
8 adjustments in some categories rather than to just -- I
9 don't think our job is receive and file here. So I mean
10 I think we may want to, you know, have some further
11 discussion on maybe changing some of these goals.
12 MS. PARKER: You have the ability to -- now to
13 change these numbers.
14 MS. JACOBS: Right. But I'm just saying, you
15 know, this is the kind of thing that you don't
16 necessarily do in one meeting.
17 But secondly, this is just a small point that I
18 wanted to say, that when you have your architectural
19 document ready to go out, if you could send -- I mean, I
20 as a Board member would like to receive a package --
21 MR. GIPSON: Oh, yes.
22 MS. JACOBS: -- before the meeting. I mean when
23 it's ready to go out, I'd like to receive a package. I
24 don't know if anybody else would like to, but.
25 MR. GIPSON: I expected as such, so, yes.

1 CHAIRPERSON COURSON: I'm going to make a
2 suggestion following up on what we just talked about in
3 terms of architectural review. Maybe the agenda item is
4 broader than that and --
5 MS. GALANTE: I was going to ask that.
6 CHAIRPERSON COURSON: -- maybe what we ought to
7 do is in July put on -- having this number put on the
8 agenda really a discussion time that talks about
9 potential opportunities and challenges of increasing our
10 multifamily production, looking at all these. I mean
11 there's a lot of different areas up there and process
12 and maybe a more thorough briefing of the Board of what
13 that process is, what some of the changes are. I think
14 it's a -- now I see it as a bigger issue addressing what
15 really the -- my three fellow Board members have just
16 talked about, and I think that's a very good discussion
17 to have, the Board.
18 Mr. Carey.
19 MR. CAREY: I'm very supportive of that. I just
20 want to point out that meeting is July 5th. Have we
21 adjusted that schedule in any way?
22 MS. PARKER: I think we've talked about changing
23 the time of the meeting to be later in the day.
24 Unfortunately, we have not changed the date, but we have
25 talked about making the meeting start later in the day.

1 CHAIRPERSON COURSON: If -- we did talk about --
2 we talked about starting later. If it is a problem, we
3 can look at dates, I suppose. I don't know, we're
4 meeting in Sacramento.
5 MS. PARKER: Sacramento.
6 MS. OJIMA: Hyatt.
7 CHAIRPERSON COURSON: At the Hyatt. And the
8 question was --
9 MS. PARKER: Jojo, I mean, you know, you might
10 want to talk a little bit about the problems that we had
11 trying to even get --
12 MS. OJIMA: The month of July for Board
13 locations, just any day, was a problem in Sacramento,
14 the month of July.
15 MS. PARKER: So, you know, we serve, you know,
16 whatever the pleasure of the Board.
17 CHAIRPERSON COURSON: I think the last
18 discussion at the last Board meeting, if I recall, was
19 we were going to go for an afternoon start, like a 1:00
20 o'clock, as opposed to a 9:30, which gives everybody a
21 chance to get there.
22 Mr. Pavao.
23 MR. PAVAO: Is your point just the week of
24 Fourth of July is a tough week to convene a meeting?
25 MR. CAREY: My point is I think it's an

1 excellent discussion, and I just want to be sure that we
2 are all able to be there for it, that we'll have a broad
3 enough representation.
4 CHAIRPERSON COURSON: Let me do -- let us -- let
5 me do this: What we'll do is, let's -- we'll -- I'll
6 ask -- we're asking her now, Jojo, let's go back and
7 just take a look at what availability. Are there any
8 other days available? And we've got to start with that.
9 If we don't have the facility, we can't have the
10 meeting. And what facilities would be available. And
11 then if they are, we can circulate those to the Board
12 and determine availability.
13 MS. PARKER: Mr. Chairman, may I ask the Board,
14 I only would ask the Board if they could give us some
15 input now about the inability to make that. Because I
16 know that when JoJo does this, first of all we have a
17 contract in place with --
18 CHAIRPERSON COURSON: Okay.
19 MS. PARKER: And it will cost us some money to
20 essentially change that.
21 MS. OJIMA: That's correct.
22 CHAIRPERSON COURSON: Okay.
23 MS. PARKER: So may I just ask --
24 CHAIRPERSON COURSON: Sure.
25 MS. PARKER: -- Board members so we can start

1 there at least.

2 CHAIRPERSON COURSON: Mr. Pavao.

3 MR. PAVAO: I would be unavailable July 5.

4 CHAIRPERSON COURSON: Okay. Any -- and others

5 unavailable?

6 MS. JACOBS: I'm looking at my calendar. It

7 takes me a while to get it to come up.

8 CHAIRPERSON COURSON: You need to -- Ms. Jacobs,

9 you need to carry one of those little things you write

10 it down on paper and it stays on the page and it works.

11 They're called pocket timers.

12 MS. PARKER: Mr. Pavao, if you don't come, will

13 the Treasurer send someone else?

14 MR. PAVAO: Yeah.

15 MS. PARKER: But you wouldn't be able to be here

16 for that --

17 MR. PAVAO: Correct. It would be an alternate.

18 MS. PARKER: -- presentation?

19 MR. DAVI: I'm in the same situation. There'd

20 probably be an alternate here instead of myself.

21 CHAIRPERSON COURSON: Okay.

22 MR. CAREY: I would just say for me 9:00 or 9:30

23 is tough, but I could be here a little bit later.

24 CHAIRPERSON COURSON: Yeah. Well, I think we

25 already made the decision to do the afternoon. All

1 right. Well, let's look. We'll take a look at it.
2 Let's see what the alternatives are. And if there are
3 none, we'll communicate that. If there are some
4 potential other dates, let's communicate those back so
5 that we make sure we have the best participation
6 possible. So we'll just take another look at it.
7 Things could have changed. The Hyatt may have
8 grabbed an opening and there may -- frankly, we keep
9 talking about the mornings. I mean, it may be if the
10 5th is a difficult time, we may be able -- as opposed to
11 the morning of some other date, there may be
12 availability at 1:00 o'clock in the afternoon on another
13 day. Because normally we always go in for those morning
14 start times.
15 So we will take a look at it and get back to the
16 Board within the next couple of weeks.
17 Okay. Are we Prolink?
18 MS. WHITTALL-SCHERFEE: Yes. I'm ready to talk
19 about Prolink, yes. Prolink is a project you've heard
20 about. I believe we presented it at last year's budget
21 discussion or goals and initiatives discussion. We are
22 getting very, very close.
23 Prolink is a system in multifamily programs, and
24 it's not just for multifamily programs. It's a system
25 that's going to be used throughout our entire agency

1 with any department that is involved in multifamily. So
2 it touches asset management, finance, accounting and
3 legal as well.
4 In your binder on page 247 is an explanation of
5 Prolink, and I just wanted to add to that explanation a
6 little bit. The whole purpose behind Prolink is to take
7 the system that we have right now, which is -- which
8 requires manual data entry of every single field that is
9 on our database -- so the likelihood that there be may
10 transpositions and errors is very, very high, or that
11 there are just blanks, because the system's only as good
12 as the people who take the time to fill it in. And it's
13 a system that's antiquated. It's very, very difficult
14 to navigate. It's not very user friendly from a
15 management system. It has canned reports and very, very
16 little flexibility.
17 This system will allow flexibility for those of
18 us that are interested in more of an overview. For
19 management, for the new director of multifamily
20 programs, it will allow them to take a look at
21 everything that multifamily is doing, not only in the
22 division of multifamily programs, but with the
23 exception, I believe, of Habitat for Humanity in the
24 special lending side as well, so there will be a
25 complete overview available for the director.

1 It's going to allow other departments to look at
2 the process, where we are in the loan approval process,
3 at documents, at whatever has come in on that particular
4 project in real time. They can access it
5 electronically. It will allow the Universal Act to be
6 incorporated into our system and instead of having to
7 manually update numbers and manually update information
8 as it comes in, there's going to be an electronic way to
9 do that.
10 It will get us away from really relying on
11 files. We have binders full of paper. It will save a
12 lot of trees, but it will also just add an efficiency
13 that our division just has not ever had. And it goes to
14 the whole multifamily competitiveness. It's going to be
15 a system that will allow growth over time, growth in how
16 we process, but growth in terms of how the whole system
17 is used.
18 If it's effective and efficient for our
19 division, other divisions can add to it and continue to
20 use information that's been put in. For instance, with
21 asset management, they could provide information that is
22 critical to us in underwriting in terms of annual
23 operating budgets and information that now we have to
24 physically go ask them for, information like what is
25 your average operating expense on a senior apartment

1 project approximately 50 units in San Jose. We can't go
2 into a system and really find that information right
3 now. We have to ask somebody to get it for us.
4 That is one of the strengths behind Prolink, and
5 it also allows for flexible reporting. You can prepare
6 your own reports. You can prepare reports that are
7 available for the entire population of users to view.
8 The other thing that it will do is allow us to
9 improve and simplify our communication with the
10 borrowers. Not only will they be able to electronically
11 give us application information, but they will in the
12 future -- this is not part of the first phase. They
13 will be able to go in and look at where they are in our
14 application process. That's one of our goals, is that
15 it's going to be a very interactive system, not only
16 within the Agency but with our developing population --
17 developer population as a whole.
18 Right now it is a huge -- it's a huge source of
19 work. There have been two people that have
20 traditionally been dedicated in the multifamily program
21 staff to this. This fiscal year that increased to four,
22 so there are four full-time staff people that are
23 working on Prolink with our outside vendor, who is
24 actually providing the program.
25 In addition, there are approximately between 15

1 and 20 subject matter experts in the areas that I've --
2 in the area I originally addressed, which was asset
3 management, finance, accounting and legal and
4 multifamily itself. All of those people have been very
5 critical contributors to coming up with the system that
6 we're going to end up with hopefully running and in play
7 by the middle of September.
8 Our goal right now is that we expect to get the
9 prototype in June or July. Then we'll be testing it.
10 We've seen samples of it along the way. We've seen the
11 screens. We know how they're going to work. We've had
12 lots of iterative discussions on the design to this
13 point.
14 And in June, end of June, we expect to see the
15 protocol, and we'll begin testing it and really making
16 sure the system works with the idea that it -- at the
17 middle of August, we will probably at that point then
18 begin the training, the training for the hundred users
19 within the Agency who are expected to be able to use it.
20 And this training is going to be very specific.
21 It's going to be very division specific. And this
22 training is based on what each division has told us they
23 wanted to see in that system. So it's going to teach
24 them how to use the system for their needs, but also
25 show them where they need to go for information in other

1 areas. So the hope is that we will have the prototype.
2 Our goal is to have this rolled out by the end of
3 September.
4 The total contracted cost of this program to
5 date is approximately 685,000. To date we have paid
6 490,000 of that. We're optimistic that the product is
7 going to be well received, and we think it should be
8 because this process has taken almost two years because
9 we have been actively soliciting information from staff,
10 from the people that are going to use it. Because
11 their -- their input is what's going to make this system
12 the system that we need to move multifamily programs
13 forward. And it's part of our competitiveness
14 initiative, and its part of how we see ourselves getting
15 back into being the lender of first choice as opposed to
16 the lender of last resort.
17 CHAIRPERSON COURSON: Let me turn the spotlight
18 a little bit, based on our discussion about volumes and
19 production and so on, from our borrower customers. Is
20 there availability -- as we make these competitive
21 changes and so on, is there an ability for borrowers,
22 for potential applicants, to come in and access through
23 a portal all of that information as opposed to hard
24 copy? Is there an ability -- for example, is there a
25 forms digest? If I want to print out CalHFA forms, can

1 I go to a portal and find that form and print it? Can I
2 find the architectural -- I mean, is there a borrower
3 portal available?
4 MS. WHITTALL-SCHERFEE: Right now everything
5 that we have is on the -- our internet system. You can
6 print up the architectural manual on the Internet. What
7 Prolink is designed to do is allow the borrower to have
8 more access to the project they're working on.
9 CHAIRPERSON COURSON: No, I understand.
10 MS. WHITTALL-SCHERFEE: Yes.
11 CHAIRPERSON COURSON: Thank you.
12 MS. PARKER: Why don't we call Doug up so we can
13 kind of -- Doug, if you want to go through special
14 lending quickly.
15 MR. SMOOT: Good afternoon.
16 Special lending programs, as you are aware,
17 there are three program areas within special lending:
18 HELP programs, residential development loan program
19 which we call RDLP, and the Habitat for Humanity loan
20 purchase program. Unfortunately we don't have an
21 acronym for that one.
22 $75 million for the HELP program is our
23 five-year forecast on allocation for that particular
24 program. And you should remember that is a HAT funded
25 program. We're very much aware of the special nature of

1 this resource and its value elsewhere. This program has
2 put out about 167 -- a little over 167 million over --
3 starting we'll begin our ninth year next year.
4 As a result we're starting to get returning
5 funds. And in the next year, year and a half, we'll be
6 actually a fully sustaining program based on the
7 capitalization for that program to date. So it's not
8 going to draw upon future HAT funds. And we think that
9 that's a self sustaining amount with the amount of
10 demand that we're seeing also, so that's kind of a happy
11 marriage for us.
12 The residential development loan program was --
13 as you probably recall, was capitalized with about 170
14 million of funds between Proposition 46 and Proposition
15 1C. We show $200 million for the five-year plan. That
16 really is 40 million annually. As you can tell from
17 that number, that actually means that we're already
18 starting to count for the future that we're recycling.
19 We're going to get repayments. We're going to recycle
20 those funds, and we really think that is a very
21 long-term program based on that funding level.
22 You will recall last Board meeting, we actually
23 changed the terms of this program. We have -- tomorrow
24 is an application deadline for the first application
25 under those changed terms. We went from a four-year to

1 a five-year loan program, which really opened up to a
2 lot of new potential projects. We have increased the
3 maximum loan amount from four to five million. That and
4 we have a construction lending component of that where
5 we won't loan more than two million. My guess is we're
6 probably going to be involved no more than probably
7 25-percent of total construction financing in any
8 particular transaction.
9 And tomorrow we'll -- tomorrow is the test. We
10 already think we have significant increase in loan
11 applications as a result of this program, and it appears
12 to be fairly statewide, which is -- which is nice, not
13 just urban areas.
14 The third program, Habitat for Humanity, that
15 again is a loan, an individual loan, purchase program,
16 very staff intensive. We have budgeted the next two
17 years at $5 million a year of loans. Beyond that, we
18 really want to just see how it goes.
19 The previous two years of this program, we have
20 allocated two million the first year, three million the
21 second year. We think -- we don't know what the
22 sustaining level for that program is, and so beyond the
23 two-year time line out there, we're a little hesitant to
24 be able to target a dollar amount. And also it has to
25 do with the value of that HAT fund because, again, this

1 is HAT funded.

2 MS. PARKER: This is -- this is not a program

3 that we could build in a recycling ability because these

4 loans will end up being for the entire life. So that's

5 one of the reasons why we wanted to come back and not

6 make future out-year commitments so that the Board could

7 be in a better position of essentially weighing this

8 against the scarce resource of HAT funds in other

9 program areas.

10 MR. SMOOT: That's correct. And the only other

11 point would be to emphasize part of the discussion

12 earlier regarding the Prolink system. All three of

13 these programs will be using the database and the

14 management that comes with that program.

15 MS. PARKER: Questions?

16 CHAIRPERSON COURSON: Questions?

17 MS. GALANTE: Can I just ask one? The

18 residential development loan program, I know these are

19 recycled Prop 46, Prop -- yeah, Prop 46 funds; right?

20 The structure of that program, is that, again, dictated

21 somewhere, or is there flexibility on how those moneys

22 get used? Do they need to be for homeownership? I mean

23 I know right now they are, but let me just tell you

24 where I'm going before you answer, which is in terms of

25 competitiveness for CalHFA, it seems to me that the

1 ability to lend predevelopment acquisition dollars to,
2 one, more than public agencies and on broader product
3 types would be a huge competitive advantage.
4 And one of the things that's happening out there
5 in the marketplace is, you know, even private lenders or
6 investors, tax-credit investors, are saying, you know,
7 if you go with us, we'll give you X number of dollars to
8 do all this predevelopment work. So I just want to --
9 it may be the conversation for July, but I just want to
10 ask about that.
11 MS. PARKER: Yeah, I think I can answer that.
12 Originally the Prop 46 fund was part of the deal where
13 homeownership got so much of the bond and multifamily
14 got so much of the bond, and when we weren't really
15 spending it as quickly -- well, and that was the money
16 that is in insurance program.
17 MS. GALANTE: Got it.
18 MS. PARKER: And we essentially said, it's kind
19 of sitting here. We'd like to do something. And this
20 was a particular program that we developed and brought
21 forward as a way to help with creating new housing stock
22 on the homeownership side. Then that was picked up in
23 the bond. And so, again, it's -- it's on the
24 homeownership side of the equation. That's just, you
25 know, how it was viewed, so.

1 And it is also set up so that to the extent it's
2 not used, it goes into our bucket of down payment
3 assistance. And, you know, part of the reason why we
4 have been able to, in our business plan, really reduce
5 as much down payment as we have in the HAT funds, is to
6 be using as efficiently and effectively as we can the
7 bond funds in a Prop 46 and 1C.
8 MS. GALANTE: And it is designated to go to
9 public agencies only, or is that something that could
10 be --
11 MR. SMOOT: Yes, it is. There -- there are --
12 we're very open to be able to -- looking at other ideas,
13 but there -- one, it was a staffing capacity as to how
14 to, you know, initially design the program in the first
15 place. The other is that there are some statutory
16 requirements or roadblocks to us being able to make
17 funds available to -- to other types of entities too.
18 And that's -- that's quite a convoluted discussion, but
19 we have looked at trying to be able to do that and found
20 it difficult.
21 MS. PARKER: Carol, I guess to answer your
22 question, is there a specific requirement that it be
23 done this way, I think the answer is no. From a
24 practical standpoint, what we did was when we created
25 this, we essentially used the success of the HELP fund

1 and how we had done that as a way to put this one
2 together.
3 But, you know, it may be a situation as time
4 changes, this is a significant amount of money for us to
5 see how the demand is. So I think that's something that
6 we'll have to talk about, and maybe we need to spend
7 some more time talking to the Board about, you know, why
8 we have, you know, developed -- I think these would be
9 all good conversations for us to have with you about
10 kind of what we -- why we've done what we've done. I
11 think we talked a little bit about it when we first
12 brought the programs, but maybe we need refreshers or to
13 have some discussion about how does it fit in, you know,
14 sort of the marketplace today.
15 But to answer your question, I think that was
16 more of a design issue on our part than an ultimate one.
17 And again, I think it goes back to -- to some extent to
18 the modeling it on HELP and then a staff resource issue.
19 CHAIRPERSON COURSON: Mr. Czuker.
20 MR. CZUKER: Just a quick question on the HELP
21 program just to refresh my memory. How many years
22 outstanding is that for a city?
23 MR. SMOOT: The loan itself is up to ten years,
24 depending on the model.
25 MR. CZUKER: And so you have enough that are

1 recycling. That's interesting.

2 MS. GALANTE: Some recycle earlier.

3 MR. CZUKER: So that some may not be that term;

4 some may be much shorter?

5 MR. SMOOT: Right. A lot of redevelopment

6 agencies are starting to refund those moneys because

7 they need to recycle their debt. We've got almost $19

8 million of repayments of the principal amount, which is

9 a little over $3 million of interest so far. And we

10 expect about 11 million to come back next year, 15

11 million the next. So it's starting. The pattern will

12 start recycling itself.

13 MR. CZUKER: And that's for specific projects,

14 even though they're paid out of the general funds or the

15 set-aside funds of a city?

16 MR. SMOOT: Yes. It's a general obligation to

17 the entities to pay the loan back, but typically they

18 tie that to repayment of the project funds to the city.

19 CHAIRPERSON COURSON: Any other questions on the

20 special lending?

21 MS. PARKER: Margaret?

22 Thanks, Doug.

23 MS. ALVAREZ: Okay. And asset management, today

24 I'm going to focus primarily on preservation, but lest

25 you think there is no new business coming in, I think in

1 the last couple years we've had -- probably the last
2 three or four years -- more than 30 loans close each of
3 those years, and that has -- those projects go to my
4 department, and we're busy, so.
5 But today, as I said, I'm focusing on the aging
6 portfolio, and as a result of that, we have about 478
7 projects in our portfolio now, about half of those,
8 roughly half, are 20 years and older, and the other half
9 are newer.
10 We've dedicated this year ten million in HAT
11 funds for primarily rehab needs, small loans. Typically
12 they've been the ones we've been approving to date,
13 around 500,000 to a million for the -- what we call the
14 80/20 portfolio, the non-Section 8 portfolio where they
15 need some rehab work done at the properties.
16 This year we actually had two properties
17 approved. I had 4 million dedicated to this last year,
18 this past current fiscal year. Both dropped out. It
19 was about almost $3 million, and in both cases the
20 borrower decided that they either were going to fund it
21 some other way -- part of adding HAT funds to their
22 project has been extending the affordability of the loan
23 based on a longer loan term, and in both cases those
24 owners weren't so sure they wanted to do that and
25 declined our money at this time, although they may come

1 back. But currently we're in negotiations with several
2 borrowers, and I do expect ten million to be spent in
3 the next year on HAT funds.
4 We also had a pot of money, about 50 million, in
5 earned surplus. And as a reminder, that's on the
6 Section 8 properties where borrowers are limited in
7 their distribution. So any excess money, if you will,
8 comes either to HUD or to the Agency. And that 50
9 million represent money that's in the Agency's pot that
10 we're allowed to spend and also in HUD's pot that is
11 project specific.
12 We've spent quite a bit of HUD's money going
13 back, approving it to go back to the projects this year
14 to do rehab work. And of that 50 million that -- of the
15 amount that the Agency had, let's see, about 22 million
16 has already been loaned for 21 loans ranging from
17 $54,000 loan to a $6.9-million loan.
18 So we have about 9.6 million in commitments
19 going forward, so we get about two and a half million
20 from the projects each year in earned surplus. I would
21 expect as rents remain flat in the HUD program and
22 operating expenses go up, that 2.5 million is probably
23 not consistent in the future years, although this year
24 we did actually get a little bit more than we did last
25 year. So we'll see how well the buildings have done.

1 In all these programs, we always stress sales.
2 And like today, the two projects we brought forward were
3 portfolio sales. And we already have a Section 8 sales
4 policy in place. That's been in place for several
5 years. It was tweaked a little bit this year to
6 hopefully capture some of these high rehab need
7 projects.
8 We've had 15 sales to date. Ten are pending in
9 the pipeline. We had six taken, refinanced a couple
10 years ago through that HUD OMAR project that was going
11 on and one taken in eminent domain. So out of our 150
12 Section 8 projects, 32 have already been done or will be
13 done, refinanced, which represents 22 percent of that
14 portfolio. And I say that's pretty good. Looking on
15 the flip side that leaves 78 percent still to be taken
16 care of. Not all of those owners want to be taken care
17 of, but we're hoping to use our funds as best we can to
18 make that happen.
19 On the SB 707, that's actually a bill that's
20 going through that HCD wrote, and we recently asked to
21 amend that a little bit to take care of our loans. That
22 original rental housing construction program set aside
23 60 percent of the funds that HDC was in charge of, and
24 40 percent came to our Agency. And each party did their
25 own thing all these years. There was no real escape

1 clause to that money, and that's what this bill seeks to
2 do, is to prolong those bills -- excuse me, prolong the
3 loans and allow each of our departments to refinance
4 those projects.
5 We've submitted our comments and our amendments
6 to HCD and to the Governor's Office. It hasn't been
7 totally bought off on yet. We still have housing
8 advocates interested in how we want to do it versus how
9 HCD has done it, and so we're just at the early stages
10 of that.
11 And then we always have our ongoing challenge to
12 develop refinancing plans for our older 80/20 portfolio,
13 and that's the projects that before tax credits that
14 were what we used to call plain vanilla, where 20
15 percent of the units were set aside at 80 percent AMI,
16 so not a whole lot of affordability, but really a lot of
17 equity in those projects, and they're older.
18 And those owners want two things. They want
19 equity take-out, and they want to rehab their units.
20 They don't always necessarily want to extend their loans
21 and their affordability, so this is the discussion and
22 negotiations. We have some roadblocks. We have tax and
23 bond laws with our statutes and some other things, so
24 this is an ongoing effort and an ongoing challenge.
25 Edwin talked a lot about the Mental Health

1 Services Act. My division is going to be monitoring the
2 real estate portion of that as loans close, just like we
3 currently do with all our other projects, financial
4 analysis, property inspections and so forth. But the
5 big piece that we're going to be in charge of is the
6 rent subsidy program, which is about 40 million a year,
7 is what they're projecting.
8 So as kind of just -- I know everybody here is
9 numbers people, but if you really figure that the
10 program creates 500 units a year, over its 20 years
11 that's 10,000 units. Currently the Agency has about
12 33,000 units that we oversee, so this is a huge growth
13 in our Agency and in our division.
14 The $40-million subsidy would equate to an $800
15 million subsidy that we would be overseeing 20 years
16 from now. So I expect -- this year we didn't ask for
17 any new bodies. We're absorbing it with what we're
18 already doing, but over time when you get the budgets
19 each year, you'll be seeing increases in people and
20 bodies to oversee this big program.
21 And then lastly I would just talk about our
22 prepayment policy. Also as my predecessors up here on
23 the discussions today have said, we don't allow
24 prepayments. That's been our Agency policy. It's
25 something that a lot of people have asked us to change.

1 It's a lot more complicated than it sounds for all the
2 reasons that Terri and the others have discussed, that
3 kind of we're expected that what we do for one, we'd be
4 willing to do for all.
5 Every time we think we have somewhat of a plan,
6 we hit more roadblocks and bumps because one idea leads
7 to three roadblocks. So we have a work group in place.
8 We continually challenge ourselves on this and try to
9 figure out how we can make it happen, if we can make it
10 happen, do we really want it to happen and what it will
11 look like. So these are our challenges for the year and
12 the things that keep us busy more than 40 hours a week.
13 And if anyone has any questions, I'm happy to
14 answer them.
15 MR. CZUKER: Any questions from the Board?
16 MS. PARKER: Thank you, Margaret.
17 I'm going to skip the next two slides because
18 they're really about strategic initiatives, and we're
19 going to talk about that under operating budget anyway.
20 Believe me, as I said, I'm going to keep saying
21 strategic initiatives because when they're -- when we go
22 to the operating budget, you're going to see what a, you
23 know, major infrastructure commitment this is. But it
24 is, obviously, part of the infrastructure that's needed
25 to do the operating program goals we have.

1 So I'm just going to conclude my comments that I
2 made in the very beginning. We believe that, you know,
3 certainly on the homeownership side we have continued
4 demand for our products, and we need to find capital to
5 continue, particularly recognizing that as loan amounts
6 grow, number of loans will decline, and we don't want to
7 be in a situation where even though we doing a
8 billion-five, our loan numbers are very low because the
9 loan amounts are so great in California.
10 We -- clearly, again, a major theme of
11 recruiting the positions that we need in the Agency.
12 And then essentially, as I said, doing the strategic
13 projects to support our automated systems and business
14 support systems.
15 So with that, Mr. Chairman, I'd answer any other
16 questions.
17 I would ask the Board for your support of this
18 business plan with the one caveat that I would say that
19 clearly we would really like, I think, to have this
20 discussion on multifamily and we collectively, I
21 think -- if we can discuss this and figure out ways for
22 us to be more involved in the marketplace. I have
23 always known that multifamily is very, very important to
24 this Board, and we have tried to look at options and
25 also to create new avenues of opportunity that were more

1 public benefit when we have not been as competitive.
2 So this is the product of the entire staff of
3 the Housing Finance Agency. They are all, almost 300 of
4 them, committed to making this be realized next year and
5 the five years hence.
6 CHAIRPERSON COURSON: There is -- on page 277
7 there is a resolution to approve the business plan that
8 we have been presented with. Is there a motion to
9 approve that resolution?
10 MR. CZUKER: So move.
11 MR. DAVI: Second.
12 CHAIRPERSON COURSON: Mr. Czuker.
13 And a second?
14 Ms. Galante.
15 MS. GALANTE: Second.
16 CHAIRPERSON COURSON: Any other further
17 discussion?
18 Any comments from the public?
19 Seeing none, let's call the roll.
20 MS. OJIMA: Thank you.
21 Mr. Davi.
22 MR. DAVI: Yes.
23 MS. OJIMA: Mr. Carey.
24 MR. CAREY: Yes.
25 MS. OJIMA: Mr. Czuker.

1 MR. CZUKER: Yes.
2 MS. OJIMA: Ms. Galante.
3 MS. GALANTE: Yes.
4 MS. OJIMA: Ms. Jacobs.
5 MS. JACOBS: Yes.
6 MS. OJIMA: Mr. Pavao.
7 MR. PAVAO: Yes.
8 MS. OJIMA: Mr. Morris.
9 MR. MORRIS: Yes.
10 MS. OJIMA: Mr. Courson.
11 CHAIRPERSON COURSON: Yes.
12 MS. OJIMA: Resolution 07-15 has been approved.
13 CHAIRPERSON COURSON: Okay.
14 --o0o--
15 **Item 7. Resolution 07-16, Operating Budget**
16 MS. PARKER: All right. Then the next
17 discussion is of the operating budget for the Agency,
18 and you also have a PowerPoint presentation in front of
19 you. I've asked Jackie Riley, our Director of
20 Administration/Human Resources, to participate with me,
21 but I'm also going to ask Steve Spears if he would come
22 up so that we can take over maybe a broader discussion
23 about strategic initiatives as part of our operating
24 budget.
25 Let me just say that I'm well aware that this is

1 a significant increase in what we have asked for in the
2 past, and what I'm going to do is walk you through where
3 exactly those are. There is a 21-percent increase in
4 funding. There is -- and it's really broken down
5 into -- 42-percent of it is for increased staffing.
6 We'll talk through about what those -- where those
7 staffing positions are. 48 percent of it is consulting
8 and professional services, primarily related to
9 strategic initiatives.
10 And I would stop for a minute, and if you look
11 at what is in consulting and professional services and
12 personnel services related to strategic initiatives,
13 would say that probably well over 50 percent or greater
14 of the increases year to year are tied around strategic
15 initiatives.
16 And then the last area of it is pro rata central
17 administrative services. I think we talked about this
18 last year because it was one of the two biggest parts of
19 our increases. We don't have any control over this. It
20 includes everything from retirement costs to our
21 donation to the ongoing cost of the support areas of
22 government.
23 The next page is to show you the line item
24 budgets broken down by personnel services, general
25 expense, travel, et cetera, et cetera. And what I

1 wanted to call your attention to is a handout that is at
2 your seats on the list of what makes up the consulting
3 and professional services line item. And you can go
4 through that and see the individual contracts that make
5 up that entire number and how they are broken down by
6 the various areas, whether it be executive,
7 administration, marketing, legal, IT, homeownership.
8 And as you go through there, you can see that
9 number under IT of almost $7.7 million of a total 9.8,
10 almost 9.9 number. And you can see how much of that is
11 related to IT support and the strategic initiatives.
12 There is also money in here for -- under the executive
13 for our entity that's helping us with the new builder --
14 new building. That's $150,000 contract. But, you know,
15 if you want to go through here, be happy to answer any
16 questions about any of these contracts.
17 And lastly, the other important part of this
18 is -- and it's going to be a slide that I'm going to
19 show you. We have a substantial amount of hiring that
20 we're doing for our ongoing activities out of our
21 consulting line item since we cannot do it through our
22 personnel services item.
23 So if you go through here, you will find that
24 there are dollars for legal staff, because we haven't
25 been able to hire through the attorney classifications

1 of state government. So in order to meet the attorney
2 requirements to do our deals, we have several firms that
3 we contract with. We have a couple of underwriters
4 under contract and paid out of consulting professional
5 services.
6 So we have been using this as a way to deal with
7 our inability to hire people through civil service, but
8 that brings problems in and of itself because we can't
9 hire people in contract for long periods of time.
10 So moving right along, we thought some of the
11 slides again that would be helpful, the next one,
12 showing you really the growth in consulting and
13 personnel services and how we are -- our personnel
14 services dollars and really not as large a portion of it
15 as they have been in the past, but what is growing is
16 consulting.
17 Now, I would note that when we talk about the
18 strategic initiative, the positions, the 21 positions
19 that we've added, more than a quarter of those are
20 limited term positions tied to strategic initiatives.
21 That means in two-plus years, they're going to be gone
22 because those are positions we're adding to backfill, as
23 Gerry said, as we've said in some of the other areas,
24 positions that we are dedicating to these initiatives.
25 Other positions we are adding are in multifamily

1 to deal with the homeless new program and Bay Area, the
2 other major program area that we're increasing the loan
3 servicing. If you look back in our past, we -- the
4 number of loans that we are servicing have more than
5 doubled, and we have not increased the staff in years.
6 We have a new loan servicing manager. We are trying to
7 create a structure within the organization that has been
8 sorely missing for quite some time.
9 The other area that needs to be explained too is
10 along with new positions, we have the cost associated
11 with some upgrades of some existing positions, but
12 the -- some of the costs between this slide and the next
13 slide that's important to note, we have talked in past
14 years. We have not included usually at this time any
15 dollars for salary increases, because usually the
16 contracts have not been collectively bargained. And
17 when we did the budget last year, we not include any
18 salary increase.
19 What we are having now hit us is the fact that
20 contracts were bargained where salary increases were
21 granted in this current year starting -- was it
22 December? Were they --
23 MS. RILEY: They were retroactive to July.
24 MS. PARKER: To July, okay.
25 So there's those increases. Then that -- that

1 amount is then annualized in the next year. Plus
2 there's another 3.4 percent that the contract calls to
3 be granted, and so we have built those costs in. We've
4 built in increased costs in retirement to go along with
5 it and the salary increases that the Board has made for
6 the exempt positions. So you've got, you know, two
7 years of, you know, increases built in and numbers going
8 forward which, you know, make up again for a significant
9 year-to-year increase.
10 If you look at the next slide, you can see that
11 if you're looking at our annual salaries, while there
12 have been increases, the retirement costs associated
13 with that have grown exponentially faster. And part of
14 that is it used to be that the State as an employer
15 didn't contribute as much to the retirement system. We
16 were able to accomplish that through the growth of the
17 retirement fund in and of itself. That has slowed down,
18 and so the State has had to contribute more and more,
19 and that is why we see the increases in retirement costs
20 through pro rata.
21 That -- again, these are things that the bill is
22 handed to us and we pay. We do not have any ability to
23 essentially control those costs.
24 The strategic initiatives, I passed over that as
25 part of our production, but I think we have tried to lay

1 out to you what these eight initiatives are about, the
2 significant dollar investment associated with them.
3 We've got a chart which essentially shows what we're
4 estimating the five-year commitment to be, which is
5 close to $30 million. Some of these we have started, we
6 have talked with you about.
7 But we really do need you to understand this
8 because, one, fundamental -- it's fundamental to the
9 business, but given the dollar amount, you know, we
10 don't want there to be surprises. This is -- these are
11 what we are anticipating. This is the largest increase
12 in our operating budget. I think, you know, if we're
13 not going to go forward, there's not the commitment here
14 about doing this, then, you know, we need to seriously
15 talk about it because you've got everything here from a
16 new general ledger to new loan origination systems in
17 both of our program areas to get debt management to risk
18 management. We are hitting all of our infrastructure at
19 one time.
20 Steve, I don't know if you want to add anything
21 to those two slides.
22 MR. SPEARS: Just a note or two, Terri.
23 You can basically break these projects down
24 between operational projects, the homeownership loan
25 automation and the multifamily loan automation. And the

1 rest of it is a change in our business support
2 environment, the general ledger systems, how we manage
3 information and documents, how we all talk to each
4 other. It will completely change the Agency's
5 environment business wise, make us much more
6 collaborative, save costs, and kill fewer trees. It
7 will be a more secure environment for our employees as
8 well, so I think that's the important thing.
9 The only thing I want to add about the next page
10 on costs, what we've tried to do is include the costs,
11 an estimate of the costs of everything including the
12 individuals that you've heard about, the new positions,
13 the project teams that are going to be dedicated to
14 doing this, facilities at the Senator Hotel that we've
15 rented to house these folks, the independent
16 verification validation of our processes that we're
17 using to select vendors, systems integrators, software,
18 hardware.
19 We tried to estimate everything, but we're just
20 sending RFPs on a lot of these. We'll know a lot more
21 in the fall. We'll bring this back. You will have to
22 approve several of these contracts because they will be
23 large. So we will know more later. This is our best
24 estimate right at this point.
25 MS. PARKER: So as a conclusion, again, you

1 know, we'll feel that this budget is really all about an
2 investment in the future. We need to get this
3 infrastructure in place to meet the other challenges we
4 have of trying to find increased capacity, trying to
5 develop efficiencies in our loan products to essentially
6 be competitive in the marketplace, and try to look for
7 as much maximum public benefit this Agency can provide
8 in the affordable housing business in California.
9 We expect several of these strategic initiatives
10 to be done in the next year going forward, but it is a
11 major investment over the next three-or-four-year
12 period. And that's why we wanted to bring that to your
13 attention, because of the significant increase this year
14 and that these will -- we will see, at least for the
15 next year or two, these related to these strategic
16 initiatives. And we want to have people understand that
17 going in.
18 And with that, Mr. Chairman, we're happy to
19 answer any questions that any of the Board members have.
20 CHAIRPERSON COURSON: Questions from the Board?
21 Ms. Galante.
22 MS. GALANTE: I'm sorry. I think I get all the
23 cost side and the strategic investment, and maybe this
24 is only my second year doing the budgeting, but the
25 revenue side, I'm looking at page 290. So it talks

about, you know, where different revenues come from, and then there's this operating transfer. So I guess I'm trying to understand, can we afford -- you know, can we afford this. Because I don't understand the different pots of money. I mean I can kind of identify some that seem like they're fees and such that are earned income. Where does this operating transfer money come from?

MS. PARKER: Bruce.

MR. GILBERTSON: As succinctly as I can, the operating transfers really are revenues that are derived from our bond financing programs that we have budgeted that we have ample authority under the indentures to remove from the lien to help fund the operating expense budget of the Agency. I don't have with me a comprehensive analysis of this, but we certainly have more than sufficient funds to fund the operating budget for the '07/08 fiscal year and beyond.

It's -- you know, one of the decisions made many years ago now on our homeownership loan program was that we discontinued the collection of an admin fee on a monthly basis for all of the loan payments that were coming in. We used to collect 25 basis points, and that helped fund the operating budget, to provide more financing flexibility. We discontinued that in the mid to late 90s, and now we're incumbent on taking moneys,

1 excess moneys, out of the liens of indentures to fund
2 these things.
3 A couple things that I would note just for the
4 '07/08 transfers, we recently retired all the remaining
5 debt from one of our Section 8 -- multifamily Section 8
6 bond indentures. Embedded within that indenture was
7 approximately $60 million. Those moneys will be first
8 targeted for funding the operating budgets of the
9 Agency.
10 CHAIRPERSON COURSON: Correct me if I'm wrong
11 here, here comes my second naive shot at this, that by
12 looking at this in the fiscal year 2007/2008, in effect
13 we are making a $1.8-million investment overall in terms
14 of -- I'm looking at the beginning balance and the --
15 I'm sorry, the ending balance. The other way around.
16 We still are ending our fiscal year with a balance
17 slightly greater than that which we start our year based
18 on the transfer of these operating funds and the
19 expenses we're going to incur, clearly smaller than in
20 previous years, but still protecting, I guess, the
21 balance, if you will --
22 MR. GILBERTSON: Yes.
23 CHAIRPERSON COURSON: -- that's in the Agency at
24 the present time.
25 MR. GILBERTSON: And we will transfer as of the

1 end of this fiscal year sufficient cash to fund all of
2 next year's operating budget, just so that we have no
3 doubt in our minds that there's sufficient funds to
4 cover all of the operating expenses of the Agency.
5 CHAIRPERSON COURSON: I think in -- I don't
6 know, Mr. Czuker and Mr. Carey may have been around.
7 We, two or three years ago, went through a very
8 extensive look over a ten-year period, as I recall, of
9 cash and did a very extensive cash analysis of sources
10 of cash and how that and our bond capital, all of this
11 would work together, trying to get a feel to really look
12 ahead as to where we were headed so we don't run into
13 any walls or train wrecks down the road. And I think
14 some of this -- that was -- part of that exercise was to
15 continue to look at that.
16 In fact, there's a point -- I mean, it's
17 probably not now. We've got enough on our plate. But
18 there's a point where that probably needs to be recycled
19 again. After three years it tends to change.
20 MR. GILBERTSON: One of the building blocks to
21 the business plan and the operating budget that you're
22 being presented today is a look at what we call our
23 liquidity budget. So we're actually budgeting for five
24 years of the Agency's operations prospectively as well
25 as the level of that we think that we can support the

1 special housing needs programs, those programs funded
2 from the Housing Assistance Trust. So as a part of
3 this, way back in January we started to look at this,
4 and we certainly have sufficient funding for those
5 programs and the operating budget for the five years.
6 MS. PARKER: Having said that, I think we are
7 very mindful of the fact that there's no free lunch and
8 that we need to manage the operating budget and
9 efficiencies as an overall part our budget from the
10 standpoint of what resource do we need to try to create
11 a budget -- or the production levels that will
12 essentially produce the revenues, you know, in measured
13 amounts to -- from the standpoint of the Board.
14 And when we did that, we talked about every -- I
15 think our internal, from staff perspectives -- view of
16 this is to look at every program that we are doing so
17 that it either accomplishes a public benefits mission or
18 a profitability goal so that we are using our resources
19 to the most efficient benefit or public benefit
20 mechanism in totality.
21 CHAIRPERSON COURSON: Any other questions on the
22 budget?
23 There is a resolution on page 291 to approve the
24 operating budget. Is there a motion to do so?
25 MR. CZUKER: So moved.

1 CHAIRPERSON COURSON: Mr. Czuker moves.
2 Is there a second?
3 MS. GALANTE: I'll second.
4 CHAIRPERSON COURSON: Ms. Galante seconds.
5 Any other comments or discussion? Questions
6 from the Board?
7 Any comments from the public?
8 Seeing none, let's call the roll.
9 MS. OJIMA: Thank you, Mr. Chairman.
10 Mr. Davi.
11 MR. DAVI: Yes.
12 MS. OJIMA: Mr. Carey.
13 MR. CAREY: Yes.
14 MS. OJIMA: Mr. Czuker.
15 MR. CZUKER: Yes.
16 MS. OJIMA: Ms. Galante.
17 MS. GALANTE: Yes.
18 MS. OJIMA: Ms. Jacobs.
19 MS. JACOBS: Yes.
20 MS. OJIMA: Mr. Pavao.
21 MR. PAVAO: Yes.
22 MS. OJIMA: Mr. Morris.
23 MR. MORRIS: Yes.
24 MS. OJIMA: Mr. Courson.
25 CHAIRPERSON COURSON: Yes.

1 MS. OJIMA: Resolution 07-16 has been approved.
2 MS. PARKER: Thank you.
3 CHAIRPERSON COURSON: Thank you.
4 MS. PARKER: Thank you all very much. I look
5 forward to our next discussion.
6 Mr. Chairman, that concludes our portion.
7 --o0o--
8 **Item 8. Discussion and possible action regarding**
9 **response by outside counsel to the Board's**
10 **question asked at the March Board meeting as to**
11 **whether the Board had the legal authority to**
12 **retroactively modify compensation established**
13 **pursuant to Health & Safety Code section 50909**
14 CHAIRPERSON COURSON: Okay. Let's move to the
15 next topic. And as I said when we started this, we're
16 going to break this, the next two items, into two
17 separate pieces: One, we'll deal with in open session,
18 the second, which will be a discussion, follow-up
19 discussion, to conversation we've had at other Board
20 meetings will likely entail or certainly is going to
21 entail a discussion of alternatives and options, some of
22 those being legal in nature, and therefore will be in
23 the executive session. And then we'll come back into
24 open session because there may be some things under
25 advice of counsel that we talk about in the executive

1 session that, in fact, do need to come back into the
2 open session.
3 So with that in mind, I'm going to ask Jason
4 Jasmine, who has been sitting patiently with us, to join
5 us. Let me introduce Jason first. Jason is an attorney
6 with the firm of Carroll, Burdick and McDonough, which
7 is a known firm in Sacramento. Partner Gary Messing is
8 well-known in Sacramento, has done a -- the firm has
9 done a lot of work for state boards such as ourselves
10 and state Department of Personnel Administration,
11 et cetera.
12 And so, Jason, thank you for sitting patiently
13 and waiting.
14 Let me, if I may, tee this up by going back for
15 a minute and reviewing where we are and why Jason has
16 joined us. At the March 8th Board meeting, those who
17 were here, and if you read the minutes, recall we took
18 two actions regarding compensation. One was we
19 reduced -- as a Board we reduced the maximum caps,
20 compensation caps, and we reduced correspondingly the
21 midpoints for the ten positions -- or I'm sorry, for the
22 four -- five categories that were in our salary matrix.
23 So we took that action.
24 And secondly, based on the request from the
25 executive director, we approved a reduction in the

1 previously approved compensation for the executive
2 director to $175,000. So those were the two actions
3 that were taken.
4 As a part of that, the part we want to talk
5 about in this open segment, there was a discussion, and
6 there were questions raised to the Board regarding
7 retroactively going in and changing -- the Board
8 changing previously approved salaries. And we had a
9 discussion about was it permissible, what was allowable,
10 what under the law could we or could we not do as a
11 Board, and were there any -- by having had compensation
12 approved, did the individual whose salary was approved
13 by the Board have any, effect, rights, if you would, to
14 maintain that salary.
15 So after that Board meeting -- we said we'd
16 research that and come back to the Board at this
17 meeting. So based on that and talking to our general
18 counsel and so on, we did retain the firm. And Jason
19 and Terri did work for us to look at that topic, plus a
20 second topic, which was, as you saw in the letter, the
21 rights of the Board, if you would, in terms of
22 compensation under the existing statute and what, in
23 fact, our rights were vis-à-vis the DPA and Controller's
24 Office.
25 So -- I'm sorry, Mr. Davi.

1 MR. DAVI: Go ahead.

2 CHAIRPERSON COURSON: So that's the second piece
3 which we'll be talking about because that leads to a
4 different discussion we'll have in executive session,
5 but for this point I'd like Jason -- well, Mr. Davi, go
6 ahead.

7 MR. DAVI: I just want to ask you a question. I
8 just would like to request the Chair to give me a moment
9 for this question before we do this. I've got a
10 situation where I'm going to have to leave in a few
11 minutes, and I think I'm one of the reasons that we had
12 this take place. Just as a clarification, you mentioned
13 what we did do last month. I wanted to make sure from
14 either legal counsels, the two actions you described
15 where we changed the ranges and we accepted the
16 voluntary change from our director, I don't perceive
17 those as the Board going back and changing salaries from
18 the January vote. Is that a true statement or false? I
19 don't see us undoing something because we changed
20 ranges, which was not salaries and it was a voluntary --

21 CHAIRPERSON COURSON: Let me -- let me at great
22 peril of practicing law without a license and with
23 counsel and outside counsel --

24 MS. JACOBS: They'll help.

25 CHAIRPERSON COURSON: Yeah, I'm sure they will.

1 The changing of the ranges, the maximum on the
2 range and the midpoint changed no salary.
3 MR. DAVI: Thank you.
4 CHAIRPERSON COURSON: It just changed the
5 matrix. We did not change any salaries, and we had that
6 discussion.
7 The voluntary request from our executive
8 director to have her salary reduced to $175,000, I'm
9 going to need counsel on this, but we approved her
10 request.
11 MR. DAVI: I understand.
12 CHAIRPERSON COURSON: And we had a discussion
13 about not taking any other actions on any other salaries
14 at that meeting, only responding and approving a request
15 we received from the executive director. Now, at that
16 point, I'm going to turn it over to Jason.
17 MR. DAVI: Then I appreciate that, and I just
18 want to say thank you for that clarification. I
19 understand what you've written in your memo, and I've
20 read it thoroughly, and it all makes sense to me. And I
21 didn't recall from last month or March, rather, that
22 there was a desire to go any further and modify. This
23 was more to answer the question if we wanted to, could
24 we.
25

1 CHAIRPERSON COURSON: Right. And I think the
2 question that was asked was I think in a broader sense.
3 It had nothing to do with the action taken in connection
4 with the request from the executive director.
5 MR. DAVI: Right.
6 CHAIRPERSON COURSON: There was a discussion
7 that I recall, and it was in the minutes, talking about
8 what retroactively -- if we deal with this in the
9 future, what retroactively can we or can we not do or
10 should we or should we not do, and that's how we
11 engaged.
12 MR. DAVI: Thanks for letting me ask that. I'm
13 sorry I've got to go.
14 CHAIRPERSON COURSON: Thank you, Mr. Davi.
15 MR. HUGHES: And I just simply wanted to add
16 that I think that is exactly correct. At the March
17 meeting I had indicated when the question came up -- I
18 think, Mr. Davi, you had asked it primarily -- that I
19 would recuse myself because my own salary was affected,
20 and that's what we've done, and that's why we've gone
21 ahead and hired outside counsel. So we're going to
22 defer to outside counsel.
23 CHAIRPERSON COURSON: And I was just reminded,
24 and that's true and I forgot, at the same time
25 ironically that we had our discussion, shortly after the

1 meeting Senator Lowenthal, who's the chair of the
2 committee, asked for the -- asked the same question and
3 the same information, so we're really -- albeit, we're
4 responding to the Board's request, it's going to respond
5 to the Senator's request also.
6 MR. JASMINE: Good afternoon, Mr. Chair and
7 Members of the Board. Thank you for having me.
8 I'm going to keep this as brief and to the point
9 as possible, and then if you have questions, please feel
10 free to ask. You do have the letter that we wrote
11 April 26th, 2007, in your materials, so I'm not going to
12 go over everything that's in there. I just wanted to,
13 straight and to the point, answer the question.
14 Retroactively you can increase salaries, but you
15 cannot decrease salaries. That's the simplest way to
16 say it. There's ample case law on the point of being
17 able to increase salaries retroactively, not decreasing
18 them. It's a vested benefit once a board takes an
19 action. That's based on the fact that we've come to the
20 conclusion that the Board has the authority to set those
21 salaries.
22 With that, I really don't see the need to get
23 into any more detail, other than answering questions.
24 CHAIRPERSON COURSON: Questions on that
25 particular point?

1 --o0o--

2 **Item 9. Closed executive session**

3 CHAIRPERSON COURSON: Okay. If not, then I'm
4 going to recess our open meeting, our public meeting,
5 and we are going to go into executive session for a
6 discussion of the other issues raised in the letter and
7 potential legal issues dealing with the Board.

8 (Board meets in closed executive session.)

9 --o0o--

10 **Item 10. Discussion and possible action regarding**
11 **compensation of exempt employees pursuant to**
12 **Health & Safety Code section 50909**

13 CHAIRPERSON COURSON: We are going back into the
14 public session. We have finished our executive session,
15 and there was no action taken that would be reported in
16 open session.

17 --o0o--

18 **Items 12 and 13. (Postponed)**

19 And the next two items on the agenda, item No.
20 12 and 13, were items placed on the agenda by Mr.
21 Morris, and Mr. Morris had to leave, so we will hold
22 those over until the July meeting.

23 --o0o--

24 **Item 16. Public testimony**

25 I don't -- if there's -- seeing no other public

1 testimony, and so having said that, we will stand
2 adjourned.
3 (The meeting concluded at 1:58 p.m.)
4 --o0o--
5
6

REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 17th day of May, 2007.

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

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CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Mercy Village Folsom Apartments
Folsom, Sacramento County, CA
CalHFA # 97026N

SUMMARY

This is a Final Commitment request for a workout on an Agency portfolio loan. Security for the acquisition/rehabilitation and permanent second loans will be a 81-unit apartment complex known as Mercy Village Folsom Apartments, located at 1100-1190 Duchow Way, Folsom, California. Mercy Housing V, L.P., a California Limited Partnership, whose managing general partner is Mercy Properties, Inc. The investor-limited partner is the California Equity Fund/National Equity Fund. The original first mortgage is a 50/50 Risk Share with Special Needs requirements on 30 units of the development.

Mercy Village Folsom Apartments is a portfolio loan currently owned by Mercy Housing V, L.P., a California Limited Partnership. The original first mortgage of $2,350,000 has a remaining balance of $1,974,794, at 3.50% with remaining term of 22 years, six months.

LOAN TERMS

Loan to Lender (City of Folsom)

Second Mortgage	$3,705,000
Interest Rate	5.50%
Term	36 months, fixed, interest only
Financing	Tax-exempt

Developer Loan*

HAT Mortgage	1,000,000
Interest Rate	3.00%
Term	22.5 year fixed, residual receipts
Financing	HAT funds – Asset Management

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

Construction Period Sources of Funds

SOURCE OF FUNDS	AMOUNT OF FUNDS	INTEREST RATE	TERM IN MONTHS
CalHFA Tax Exempt Bond	$3,705,000	5.50%	36
CalHFA HAT	$1,000,000	3.00%	270
NEF Tax Credits	$100,000	n/a	n/a
Developer Equity	$176,494	n/a	n/a
NEF Contribution	$150,000	n/a	n/a
TOTAL NEW FUNDS	**$5,131,494**		

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

Second Permanent Financing Sources of Funds

SOURCE OF FUNDS	AMOUNT OF FUNDS	INTEREST RATE	TERM IN MONTHS
CalHFA HAT Loan	$1.000,000	3%	270
Folsom Redev. Agency	$1,215,000	3%	660
NEF Tax Credit Equity	$2,430,706	n/a	n/a
Sponsor Equity	$778,337	n/a	n/a
TOTAL NEW FUNDS	**$4,424,043**		

Folsom Redevelopment Agency to pay in $1,215,000 over three year period - $500,000 on 1/1/08, $500,000 on 8/1/08, and $215,000 on 2/15/09.

OTHER FINANCING

The following sources represent the existing permanent sources of financing secured by Deeds of Trust and owner equity for Mercy Village Folsom from the award of funds in 1998. These permanent sources are currently in place and will remain.

First Permanent Financing Sources of Funds

SOURCE OF FUNDS	AMOUNT OF FUNDS	INTEREST RATE	TERM IN MONTHS	MONTHLY DEBT SERVICE
CalHFA Tax Exempt	$2,350,000	3.50%	360 (270 remain)	$10,563
Western Fin-AHP	$324,000	0	360	0
Folsom Redev	$100,000	0	480	0
Sac. Hsg & Redev	$320,000	4%	480	0
Investor Equity	$1,498,195	n/a	n/a	
Sponsor Equity	$612,906	n/a	n/a	
TOTAL FUNDS	**$5,205,101**			**$10,553**

Special Needs Interest Rate

As part of the original project approval, the Borrower agreed to provide for Special Needs tenants as defined in the CalHFA Regulatory Agreement for a period of ten years. The Borrower will extend the Special Needs program for an additional ten years and if needed, fund services from a portion of the developer fees out of the second mortgage or residual receipts. A requirement of both CalHFA and NEF is that no retention of developer fee occurs with this second financing, hence the commitment by MHS regarding Special Needs.

IMPROVEMENT DESCRIPTION

This is an 81 affordable unit existing development with ten buildings located at 1100-1190 Duchow Way, Folsom, California. Duchow Way is centrally located, with convenient access to shopping, schools, parks and Folsom's historic downtown.

The buildings were built in approximately 1954 and underwent rehabilitation in 1999 by Mercy Housing. At that time, a small addition consisting of an office, community room and second story apartment was completed.

One two-bedroom unit is reserved for the on-site manager. The units are in eight-plex configurations. The buildings are typical of the period with simple forms and finishes. The buildings have gabled, hipped and low-slope "flat" roofs and a combination of wood, composite and cement plaster siding over wood frame construction. There are both slabs on grade and raised wood frame floors with crawl space. Open and tuck under parking is provided at the back of the property and there are some individual garages off of the Duchow Way frontage. Simple sheds house most maintenance utilities and three split face block trash enclosures with metal gates are accessed through the rear parking lot.

Horizontal aluminum sliding windows provide light and air. Many of these windows are original single pane windows. Metal security doors serve as screen doors for each entry. All ten buildings are currently painted the same colors with the building fielding a light beige and a dark green trim at the eaves. Entry to individual units is by a small stoop or at grade for ground floor units and via exterior metal stairs or interior wood frame stairs for the second floor units.

PREVIOUS PHYSICAL NEEDS ASSESSMENT/SCOPE OF WORK

The original rehabilitation was completed in December 1999. The rehabilitation and the need for additional items resulted in change orders of over a half million dollars.

Extensive exterior work was completed to tie together the ten individual parcels and architectural styles. However, during the initial scope of work, additional items needed to be addressed: Replacement of gas supply piping associated with slab foundations; extensive dry rot found in walls and flooring of two buildings; a raised foundation of another building was found to have severe dry rot; damaged stucco was found at two other buildings, and dry rot discovered at the sliding glass doors of one other building required total replacement. These additional costs were supplemental to interior repairs/replacements that had been added to the scope at that time.

The total for the original rehabilitation was **$29,110 per unit**.

PROPOSED PHYSICAL NEEDS ASSESSMENT / SCOPE OF WORK

The proposed rehabilitation will address the physical deficiencies identified in the Physical Assessment Report completed by Mogavero Notestine Associates dated July 19, 2006. In general, the work will restore the integrity of the building envelope. Roofing, siding with insulation and window replacement will eliminate water intrusion problems. Drainage improvements will eliminate standing water adjacent to the buildings and prevent sheet drainage

underneath the raised foundations. Interior work will address the damage from water intrusion and subsequent mold growth and refurbish sixty units identified by CalHFA and NEF.

The work is scheduled to begin during the late summer of 2007. The rehabilitation plan calls for all exterior work related to roofing, siding and windows to be completed prior to December 2007 when rainy weather could cause additional problems. Final interior and landscaping work would be completed by February 2008. The work will be staged to avoid relocation expenses through the use of units currently off-line due to mold concerns. A mold remediation certificate by registered hygienist will be required.

The cost of the proposed hard cost rehabilitation is **$40,717 per unit.**

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: 97-026N
Final Commitment

Project:	**Mercy Village Folsom**		
Location:	1100-1190 Duchow Way	***Developer:***	**Mercy Housing**
City:	Folsom	***Partner:***	Same
County:	Sacramento	***Investor:***	NEF
Zip Code:	95630		

		No. of Buildings:	10	
Project Type:	Existing	*No. of Stories:*	2	
Occupancy:	Family	*Residential Space*	58,549	sq. ft.
Total Units:	81 (30 units Special Need)	*Office Space*	0	sq. ft.
Style Units:	Flats	*Commercial Space*	0	sq. ft.
Elevators:	none	*Gross Area*	58,549	sq. ft.
Total Parking	65	*Land Area*	98,546	sq. ft.
Covered	25	*Units per acre*	36	

CalHFA Construction Financing	Amount	Rate	Term (Mths)
CalHFA Construction Financing	$3,705,000	5.50%	36

Permanent Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage	**$0**	**0.00%**	**0**
CalHFA Bridge Loan	**$0**	**0.00%**	**0**
CalHFA Second Mortgage	**$1,000,000**	**3.00%**	**22.5**
City of Folsom Redev. Agency (1)	$1,215,000	3.00%	55
NEF	$150,000	0.00%	0
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	$214,831		
Deferred Dev. Fee	$740,000		
Tax Credit Equity	$2,530,706		

(1) City of Folsom Redev. Agency to repay CalHFA loan of $1,250,000 in three years.

Construction Valuation		Appraisal		Value Upon Completion	
Investment Value	N/A	**Appraisal Date:**	**N/A**	**Restricted Value**	N/A
Loan / Cost	72%	**Cap Rate:**	**0.00%**	**Perm. Loan / Cost**	17%
Loan / Value	0%			**Perm. Loan / Value**	0%

CalHFA Fees and Reserve Requirements

CalHFA Loan Fees	**Amount**	**Required Reserves**	**Amount**
CalHFA Construction Loan Fee	$37,050	Other Reserve	$0
CalHFA Permanent Loan Fees	$5,000	Capitalized Operating Reserve	$63,000
Other Fee	$0	Repl. Reserve - Per Unit/ Per Yr	$600
Construction Loan - Guarantees and Fees		CalHFA Operating Expense Reserve	$0
Completion Guarantee Fee	$3,423,295	Rent Up Reserve	$0
Contractors Payment Bond	$3,423,295	Other Reserve	$0
Contractors Performance Bond	$0	Tax-Exempt Bond Test (Min. 50%)	64.08%

Date: 6/20/2007 **Senior Staff Date:** 6/4/2007

UNIT MIX AND RENT SUMMARY — Mercy Village Folsom

97-026N

Total Unit Mix

# of Units	Unit Type	# of Baths	Average Sq. Ft.
8	0 Bedroom Flat	1	
14	1 Bedroom Flat	1	
59	2 Bedroom Flat	1.5	
	2 Bedroom Townhome	2	
	3 Bedroom Townhome	2	
	4 Bedroom Townhome	2.5	
81			

Number of Regulated Units By Agency

Agency	35%	45%	50%	60%	80%	Unrestricted	Total
CalHFA			16				
Tax Credits				81			
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
Studio			$845		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	8	$539		$306	64%
60%	0	$0		$0	0%
80%	0	$0		$0	0%
One Bedroom			$1,057		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	14	$582		$475	55%
60%	0	$0		$0	0%
80%	0	$0		$0	0%
Two Bedroom			$1,288		
35%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	58	$692		$596	54%
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%

Sources and Uses of Funds — Mercy Village Folsom

97-026N

Final Commitment

SOURCES OF FUNDS:	Funds in during Construction ($)	Funds in at Permanent ($)	Total Development Sources: Total Sources of Funds ($)	Sources per Unit	%
CalHFA Construction Financing	3,705,000				
Construction Only Source 2	-				
Construction Only Source 3	-				
CalHFA First Mortgage	1,000,000	-	1,000,000	12,346	17%
CalHFA Second Mortgage		-	-	-	0%
City of Folsom Redev. Agency (1)		1,215,000	1,215,000	15,000	21%
NEF	150,000	-	150,000	1,852	3%
Source 4	-	-	-	-	0%
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	-	214,831	214,831	2,652	4%
Deferred Developer Fee	176,494	563,506	740,000	9,136	13%
Tax Credit Equity	100,000	2,430,706	2,530,706	31,243	43%
Total Sources	5,131,494	4,424,043	5,850,537	72,229	100%
(Gap)/Surplus	-	-	-		

USES OF FUNDS:	Construction ($)	Permanent ($)	Total Development Costs: Total Uses of Funds ($)	Cost per Unit	%
LOAN PAYOFFS & ROLLOVERS					
Construction Loan payoffs		**$3,705,000**			
ACQUISITION					
Lesser of Land Cost or Value	-	-	-	-	0%
Demolition	-	-	-	-	0%
Legal - Acquisition Related Fees	-	-	-	-	0%
Subtotal - Land Cost / Value	-	-	-		
Existing Improvements Value	-	-	-	-	0%
Off-Site Improvements	-	-	-	-	0%
Other	-	-	-	-	0%
Total Acquisition	**-**	**-**	**-**	**-**	**0%**
REHABILITATION					
Site Work	125,235	-	125,235	1,546	2%
Rehab to Structures	3,298,060	-	3,298,060	40,717	56%
General Requirements	345,514	-	345,514	4,266	6%
Contractors Overhead	-	-	-	-	0%
Contractors Profit	-	-	-	-	0%
Contractor's Bond	-	-	-	-	0%
General Liability Insurance	-	-	-	-	0%
Environmental Mitigation Expense	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Rehabilitation	**3,768,809**	**-**	**3,768,809**	**46,529**	**64%**
RELOCATION EXPENSES					
Relocation Expense	50,000	-	50,000	617	1%
Relocation Compliance Monitoring	-	-	-	-	0%
Total Relocation	**50,000**	**-**	**50,000**	**617**	**1%**

(Continued on Next 2 Pages)

USES OF FUNDS (Cont'd):	Construction ($)	Permanent ($)	Total Development Costs		
			Total Uses of Funds ($)	Cost per Unit per Unit	%
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	92,800	-	92,800	1,146	2%
Architect's Supv during Construction	-	-	-	-	0%
Total Architectural	**92,800**	**-**	**92,800**	**1,146**	**2%**
Engineering Expense	158,614	-	158,614	1,958	3%
Engineers Supv. during Construction	-	-	-	-	0%
ALTA Survey	-	-	-	-	0%
Total Engineering & Survey	**158,614**	**-**	**158,614**	**1,958**	**3%**
CONSTRUCTION LOAN COSTS					
Construction Loan Interest	67,425		67,425	832	1%
CalHFA Construction Loan Fee	27,788		27,788	343	0%
Other Construction/Bridge Loan Interest	148,876		148,876	1,838	3%
CalHFA Outside Legal Counsel Fees	-		-	-	0%
Other Lender Req'd Legal Fees	5,000		5,000	62	0%
Title and Recording fees	15,000		15,000	185	0%
CalHFA Req'd Inspection Fees	18,000		18,000	222	0%
Other Req'd Inspection Fees	-		-	-	0%
Prevailing Wage Monitoring Expense	-		-	-	0%
Taxes & Insurance during construction	40,000		40,000	494	1%
Predevelopment Interest	5,960		5,960	74	0%
Interest on City Loan	6,250		6,250	77	0%
Other	-		-	-	0%
Total Construction Loan Expense	**334,298**	**-**	**334,298**	**4,127**	**6%**
PERMANENT LOAN COSTS					
CalHFA Perm Loan Fees	-	5,000	5,000	62	0%
CalHFA Bridge Loan Fees	-	-	-	-	0%
CalHFA Loan Application Fee	500	-	500	6	0%
Other Lender Perm. Loan Fees	-	-	-	-	0%
Title and Recording	-	-	-	-	0%
Perm. Bridge Loan Interest Expense	-	-	-	-	0%
Bond Origination Guarantee Fee	-	-	-	-	0%
Tax Exempt Bond Allocation Fee	600	-	600	7	0%
Other	-	-	-	-	0%
Total Permanent Loan Expense	**1,100**	**5,000**	**6,100**	**75**	**0%**
LEGAL FEES					
Borrower Legal Fee	51,000	-	51,000	630	1%
Other	-	-	-	-	0%
Total Attorney Expense	**51,000**	**-**	**51,000**	**630**	**1%**

USES OF FUNDS (Cont'd):	Construction ($)	Permanent ($)	Total Development Costs		
			Permanent of Funds ($)	Per Unit per Unit	%
CONTRACT / REPORT COSTS					
Appraisal	6,000	-	6,000	74	0%
Market Study	7,000	-	7,000	86	0%
Physical Needs Assessment	4,500	-	4,500	56	0%
HUD Risk Share Environ. Review	-	-	-	-	0%
CalHFA EQ Waiver Seismic Review Fee	-	-	-	-	0%
Environmental Phase I / II Reports	3,500	-	3,500	43	0%
Soils / Geotech Reports	40,000	-	40,000	494	1%
Asbestos / Lead-based Paint Report	-	-	-	-	0%
Noise/Acoustical/Traffic Study Report	-	-	-	-	0%
Termite	1,200	-	1,200	15	0%
Other	-	-	-	-	0%
Total Contract Costs	**62,200**	**-**	**62,200**	**768**	**1%**
CONTINGENCY					
Hard Cost Contingency	380,931	-	380,931	4,703	7%
Soft Cost Contingency	25,000	-	25,000	309	0%
Total Contingency	**405,931**	**-**	**405,931**	**5,011**	**7%**
RESERVES					
CalHFA Operating Expense Reserve	-	-	-	-	0%
Construction Defects Reserve	-	-	-	-	0%
Rent-Up Reserve	-	-	-	-	0%
Capitalized Operating Reserve	-	63,000	63,000	778	1%
Other	-	-	-	-	0%
Total Reserves	**-**	**63,000**	**63,000**	**778**	**1%**
OTHER					
CTCAC App/Alloc/Monitor Fees	37,242	-	37,242	460	1%
Local Permit Fees	15,000	-	15,000	185	0%
Local Development Impact Fees	-	-	-	-	0%
Other Local Fees	-	-	-	-	0%
Advertising & Marketing Expenses	-	-	-	-	0%
1st Year Taxes & Insurance	-	-	-	-	0%
Furnishings	55,500	-	55,500	685	1%
Final Cost Audit Expense	10,000	-	10,000	123	0%
Miscellaneous Admin Fees	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Other Expenses	**117,742**	**-**	**117,742**	**1,454**	**2%**
SUBTOTAL PROJECT COSTS	**5,042,494**	**3,773,000**	**5,110,494**	**63,093**	**87%**
DEVELOPER COSTS					
Developer Overhead/Profit (5% Acq.)	54,000	651,043	705,043	8,704	12%
Developer Overhead/Profit (NC/Rehab)	-	-	-	-	0%
Consultant / Processing Agent	-	-	-	-	0%
Project Administration	35,000	-	35,000	432	1%
Broker Fees to a related party	-	-	-	-	0%
Construction Mgmt. Oversight	-	-	-	-	0%
Other	-	-	-	-	0%
Total Developer Fee / Costs	**89,000**	**651,043**	**740,043**	**9,136**	**13%**
Total Costs	**5,131,494**	**4,424,043**	**5,850,537**	**72,229**	**100%**

Annual Operating Budget **Mercy Village Folsom**

Final Commitment

INCOME:	$ Amount	Per Unit	% of Total
Total Rental Income	$631,152	$7,792	99.21%
Laundry	$5,012	$62	0.79%
Other Income	$0	$0	0.00%
Gross Potential Income (GPI)	**$636,164**	**$7,854**	100.00%
Less:			
Vacancy Loss	$31,808	$393	5.26%
Effective Gross Income	**$604,356**	**$7,461**	

EXPENSES:	Total Cost	Per Unit	% of Total
Payroll	$171,410	$2,116	38.19%
Administrative	$49,495	$611	11.03%
Management fee	$34,992	$432	7.80%
Utilities	$62,017	$766	13.82%
Operating and Maintenance	$47,131	$582	10.50%
Insurance and Business Taxes	$35,004	$432	7.80%
Locality Compliance Monitoring Fee	$0	$0	0.00%
Other	$0	$0	0.00%
Subtotal Expenses	**$400,049**	$4,939	89.14%
Replacement Reserves	$48,600	$600	10.83%
Taxes & Assessments	$150	$2	0.03%
Total Expenses	$448,799	$5,541	100.00%
Financial Expenses			
CalHFA First Mortgage	$126,631	$1,563	
CalHFA Second Mortgage	$0	$0	
Other Required Debt Service	$0	$0	
NET OPERATING INCOME	**$28,926**	**$357**	

Cash Flow	Final Commitment				CalHFA Project Number:		97-026N			Mercy Village Folsom
RENTAL INCOME	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Affordable Rents	**631,152**	**646,931**	**663,104**	**679,682**	**696,674**	**714,091**	**731,943**	**750,241**	**768,997**	**788,222**
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	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Market Rate Units	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Unrestricted/Market Unit Increases	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
TOTAL RENTAL INCOME	**631,152**	**646,931**	**663,104**	**679,682**	**696,674**	**714,091**	**731,943**	**750,241**	**768,997**	**788,222**
OTHER INCOME										
Laundry	**5,012**	**5,138**	**5,266**	**5,398**	**5,533**	**5,671**	**5,813**	**5,958**	**6,107**	**6,260**
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	**5,012**	**5,138**	**5,266**	**5,398**	**5,533**	**5,671**	**5,813**	**5,958**	**6,107**	**6,260**
GROSS POTENTIAL INCOME	**636,164**	**652,068**	**668,370**	**685,079**	**702,206**	**719,761**	**737,756**	**756,199**	**775,104**	**794,482**
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	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Unrestricted Units / Market Rate 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	**31,808**	**32,603**	**33,419**	**34,254**	**35,110**	**35,988**	**36,888**	**37,810**	**38,755**	**39,724**
EFFECTIVE GROSS INCOME	**604,356**	**619,465**	**634,952**	**650,825**	**667,096**	**683,773**	**700,868**	**718,389**	**736,349**	**754,758**
OPERATING EXPENSES										
Expenses	400,049	414,051	428,542	443,541	459,065	475,133	491,762	508,974	526,788	545,226
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	150	153	156	159	162	166	169	172	176	179
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	48,600	48,600	48,600	48,600	48,600	48,600	51,030	51,030	51,030	51,030
Percentage Increase Yearly	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*5.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
TOTAL EXPENSES	**448,799**	**462,804**	**477,299**	**492,301**	**507,828**	**523,898**	**542,961**	**560,176**	**577,994**	**596,435**
NET OPERATING INCOME	**155,557**	**156,661**	**157,653**	**158,525**	**159,268**	**159,875**	**157,906**	**158,213**	**158,355**	**158,323**
DEBT SERVICE										
CalHFA - Existing 1st Mortgage	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631
CalHFA - Bridge Loan	0	0	0	0	0					
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	**1.23**	**1.24**	**1.24**	**1.25**	**1.26**	**1.26**	**1.25**	**1.25**	**1.25**	**1.25**
Cash Available for distribution	**28,926**	**30,031**	**31,022**	**31,894**	**32,638**	**33,244**	**31,276**	**31,582**	**31,725**	**31,692**

Cash Flow	CalHFA Project Number: 97-026N									Mercy Village Folsom
RENTAL INCOME	**Year 11**	**Year 12**	**Year 13**	**Year 14**	**Year 15**	**Year 16**	**Year 17**	**Year 18**	**Year 19**	**Year 20**
Affordable Rents	**807,928**	**828,126**	**848,829**	**870,050**	**891,801**	**914,096**	**936,949**	**960,372**	**984,382**	**1,008,991**
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	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Market Rate Units	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Unrestricted/Market Unit Increases	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
TOTAL RENTAL INCOME	**807,928**	**828,126**	**848,829**	**870,050**	**891,801**	**914,096**	**936,949**	**960,372**	**984,382**	**1,008,991**
OTHER INCOME										
Laundry	**6,416**	**6,577**	**6,741**	**6,909**	**7,082**	**7,259**	**7,441**	**7,627**	**7,817**	**8,013**
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	**6,416**	**6,577**	**6,741**	**6,909**	**7,082**	**7,259**	**7,441**	**7,627**	**7,817**	**8,013**
GROSS POTENTIAL INCOME	**814,344**	**834,703**	**855,570**	**876,959**	**898,883**	**921,356**	**944,389**	**967,999**	**992,199**	**1,017,004**
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	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Unrestricted Units / Market Rate 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	**40,717**	**41,735**	**42,779**	**43,848**	**44,944**	**46,068**	**47,219**	**48,400**	**49,610**	**50,850**
EFFECTIVE GROSS INCOME	**773,627**	**792,968**	**812,792**	**833,112**	**853,939**	**875,288**	**897,170**	**919,599**	**942,589**	**966,154**
OPERATING EXPENSES										
Expenses	564,309	584,059	604,502	625,659	647,557	670,222	693,679	717,958	743,087	769,095
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	183	187	190	194	198	202	206	210	214	219
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	51,030	53,582	53,582	53,582	53,582	53,582	56,261	56,261	56,261	56,261
Percentage Increase Yearly	*5.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*5.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
TOTAL EXPENSES	**615,521**	**637,827**	**658,273**	**679,435**	**701,337**	**724,005**	**750,146**	**774,429**	**799,562**	**825,574**
NET OPERATING INCOME	**158,105**	**155,140**	**154,518**	**153,677**	**152,603**	**151,283**	**147,024**	**145,170**	**143,028**	**140,580**
DEBT SERVICE										
CalHFA - Existing 1st Mortgage	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631
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	**1.25**	**1.23**	**1.22**	**1.21**	**1.21**	**1.19**	**1.16**	**1.15**	**1.13**	**1.11**
Cash Available for distribution	**31,475**	**28,509**	**27,888**	**27,046**	**25,972**	**24,652**	**20,394**	**18,540**	**16,397**	**13,950**

Cash Flow	CalHFA Project Number: 97-026N									Mercy Village Folsom
RENTAL INCOME	**Year 21**	**Year 22**	**Year 23**	**Year 24**	**Year 25**	**Year 26**	**Year 27**	**Year 28**	**Year 29**	**Year 30**
Affordable Rents	**1,034,216**	**1,060,071**	**1,086,573**	**1,113,738**	**1,141,581**	**1,170,121**	**1,199,374**	**1,229,358**	**1,260,092**	**1,291,594**
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	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Market Rate Units	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Unrestricted/Market Unit Increases	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
TOTAL RENTAL INCOME	**1,034,216**	**1,060,071**	**1,086,573**	**1,113,738**	**1,141,581**	**1,170,121**	**1,199,374**	**1,229,358**	**1,260,092**	**1,291,594**
OTHER INCOME										
Laundry	**8,213**	**8,419**	**8,629**	**8,845**	**9,066**	**9,292**	**9,525**	**9,763**	**10,007**	**10,257**
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	**8,213**	**8,419**	**8,629**	**8,845**	**9,066**	**9,292**	**9,525**	**9,763**	**10,007**	**10,257**
GROSS POTENTIAL INCOME	**1,042,429**	**1,068,490**	**1,095,202**	**1,122,582**	**1,150,647**	**1,179,413**	**1,208,898**	**1,239,121**	**1,270,099**	**1,301,851**
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	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Unrestricted Units / Market Rate 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	**52,121**	**53,424**	**54,760**	**56,129**	**57,532**	**58,971**	**60,445**	**61,956**	**63,505**	**65,093**
EFFECTIVE GROSS INCOME	**990,308**	**1,015,065**	**1,040,442**	**1,066,453**	**1,093,114**	**1,120,442**	**1,148,453**	**1,177,165**	**1,206,594**	**1,236,759**
OPERATING EXPENSES										
Expenses	796,013	823,874	852,709	882,554	913,443	945,414	978,503	1,012,751	1,048,197	1,084,884
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	223	227	232	237	241	246	251	256	261	266
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	56,261	59,074	59,074	59,074	59,074	59,074	62,027	62,027	62,027	62,027
Percentage Increase Yearly	*5.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*5.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
TOTAL EXPENSES	**852,497**	**883,174**	**912,015**	**941,864**	**972,758**	**1,004,733**	**1,040,782**	**1,075,034**	**1,110,486**	**1,147,178**
NET OPERATING INCOME	**137,811**	**131,891**	**128,428**	**124,589**	**120,356**	**115,709**	**107,672**	**102,131**	**96,108**	**89,581**
DEBT SERVICE										
CalHFA - Existing 1st Mortgage	126,631	126,631	126,631	0	0	0	0	0	0	0
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	**1.09**	**1.04**	**1.01**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Cash Available for distribution	**11,181**	**5,260**	**1,797**	**124,589**	**120,356**	**115,709**	**107,672**	**102,131**	**96,108**	**89,581**

Project Summary

Date: 19-Nov-99
Cost Cert

Project Profile:

Project : Mercy Village Folsom
Location: 1100 thru 1190 Duchow Way
Folsom 95630

County: Sacramento
Borrower: Mercy Housing California V
GP: Mercy Properties Inc.
LP: CEF

Program: Special Needs
CHFA # : 97026N

Appraiser: Tim Wright, MAI
Palmer, Groth & Pietka

Cap Rate:		8.50%
Market:	$	3,100,000
Income:	$	3,200,000
Final Value:	$	3,200,000

LTC/LTV:	
Loan/Cost	23.9%
Loan/Value	37.4%
2 Loans/Valu	73.4%

Project Description:

Units	81
Handicap Units	2
Bldge Type	Rehabilitation
Buildings	10
Stories	2
Gross Sq Ft	58,549
Land Sq Ft	98,546
Units/Acre	36
Total Parking	65
Covered Parking	25

Financing Summary:

	Amount	Per Unit	Rate	Term
CHFA 1st Closing	$1,195,224	$14,756	3.50%	30
CHFA 2nd Closing	$1,154,776	$14,256	3.50%	30
FHLB-AHP Loan	$324,000	$4,000	0.00%	30
City of Folsom CDBG loan	$92,940	$1,147	0.00%	40
SHRA HOME Loan	$320,000	$3,951	4.00%	40
City of Folsom Grant	$1,450,000	$17,901		
Limited Partner Equity	$1,498,195	$18,496		
Insurance Proceeds	$40,195	$496		
Interest Income	$8,628	$107		
Funds from Operations	$38,620	$477		
General Partner Contribution	$292,907	$3,616		
CHFA TAX Exempt Bridge Loan	164,500	$2,031	3.50%	5

Unit Mix:

Type	Size	Number	AMI	Rent	Max Income
0 BR	303	8	50%	358	$17,700
1 BR	639	14	50%	400	$20,200
2 BR	775	58	50%	441	$22,750
2 BR	775	1	N/A	0	N/A
		81			

Fees, Escrows and Reserves:

Escrows	Basis of Requirements		Amount	Security
Commitment Fee - A Loan	1.00%	of Loan Amount	$23,500	Paid in Cash
Commitment Fee - B Loan	1.00%	of Loan Amount	$1,645	Paid in Cash
Rent Up Account	15.00%	of Gross Income	waived	NA
Operating Expense Reserve	10.00%	of Gross Income	$40,039	Cash or LOC
Marketing	10.00%	of Gross Income	waived	NA
Initial Replacement Reserve Deposit	$1,000	per unit	$81,000	Cash
Annual Replacement Deposit	$425	per unit	$34,425	Operations
Construction Defect Security	2.50%	Construction costs	$62,290	Cash or LOC

SOURCES AND USES WORKSHEET — Mercy Village Folsom

SOURCES:

	Final Commitment	Cost Certification	Variance	Percent of Total Updated Sources	Interest Rate
CHFA 1st Closing	2,350,000	1,195,224		18.6%	3.50%
CHFA 2nd Closing		1,154,776		18.0%	3.50%
CHFA B Loan	164,500	164,500	-	18.0%	3.50%
FHLB-AHP Loan	324,000	324,000	-	5.1%	0.00%
City of Folsom CDBG loan	-	92,940	92,940	1.4%	0.00%
SHRA HOME Loan	-	320,000	320,000	5.0%	4.00%
Equity					
City of Folsom Grant	1,435,000	1,450,000	15,000	22.6%	
Funds from Operations	-	38,620	38,620	0.6%	
Insurance Proceeds		40,195	40,195	0.6%	
General Partner Contribution		292,907	292,907	4.6%	
Interest Income		8,628	8,628	0.1%	
Limited Partner Equity	900,000	1,498,195	598,195	23.4%	
Total Sources	5,009,000	6,415,485	1,406,485	100.0%	
(Gap)/Surplus	-	0			

USES:

ACQUISITION	Final Comm.	Phase II	Variance	Eligible Costs	Percent of Variance
Total Land Cost or Value	$423,467	$405,438	($18,029) xxxx		-4.3%
Title and Recording	$0	$4,027	$4,027		
Off-Site Improvements	$0	$0	$0 xxxx		
Evaluation Reports	$0		$0		
Existing Improvements Value	$2,211,533	$2,212,470	$937	$929,692	0.0%
Total Acquisition Cost	$2,635,000	$2,621,935	($13,065)	$929,692	-0.5%
REHABILITATION					
Personal Property	$81,000	$103,210	$22,210	$103,210	27%
Structures	$1,207,003	$2,357,972	$1,150,969	$2,357,972	95%
Rehab prior to 7/31/98	$0	$0	$0	$0	
Contractor Overhead	$0		$0	$0	
Contractor Profit	$0		$0	$0	
Total Rehab. Costs	$1,288,003	$2,461,182	$1,173,179	$2,461,182	91%
NEW CONSTRUCTION					
Site Work	$0	$0	$0	$0	
Structures	$0	$0	$0	$0	
General Requirements	$0	$0	$0	$0	
Contractor Overhead	$0	$0	$0	$0	
Contractor Profit	$0	$0	$0	$0	
Other	$0	$0	$0	$0	
Total New Const. Costs	$0	$0	$0	$0	
ARCHITECTURAL FEES					
Design	$12,500	$33,986	$21,486	$33,986	172%
Supervision	$32,500	$32,500	$0	$32,500	0%
Total Architectural Costs	$45,000	$66,486	$21,486	$66,486	48%
SURVEY & ENGINEERING	$0	$7,362	$7,362	$7,362	
CONST. INTEREST & FEES					
Construction Interest - Mercy	$61,375	$42,151	($19,224)	$12,999	-31%
Origination Fee	$10,742	$0	($10,742)	$0	-100%
Acquisition Loan interest	$0	$40,132	$40,132	$40,132	
Bond Premium	$10,742		($10,742)	$0	-100%
Taxes	$4,000	$9,399	$5,399 xxxx		135%
Insurance	$1,000	$108	($892)	$108	-89%
Title and Recording	$13,500	$13,429	($71)	$13,429	-1%
Total Const. Interest & Fees	$101,359	$105,219	$3,860	$22,803	4%
PERMANENT FINANCING					
Commitment Fee	$23,500	23,500	$0 xxxx		0%
Bridge Loan Fee	$1,645	$1,645	$0 xxxx		0%
Title and Recording	$10,000	$7,500	($2,500)		-25%
Bridge Loan Repayment		$0	$0 xxxx		
Bridge Loan Interest	$0	$17,668	$17,668 xxxx		
Construction Monitoring	$21,500	$21,600	$100 xxxx		0%
Risk Share	$9,000	$3,500	($5,500) xxxx		-61%
Total Perm. Financing Costs	$65,000	75,413	$10,413	$0	16%

USES:

	Final Comm.	Phase II	Variance		Eligible Costs	Percent of Variance
Legal Fees						
Lender Legal Pd. by Applicant	$15,500	$38,947	$23,447		$300	151%
Acquisition	$11,300	$5,086	($6,214)		$4,298	-55%
Total Attorney Costs	$26,800	$44,033	$17,233		$4,598	64%
RESERVES						
Working Capital	$0	$0	$0	xxx		
Rent Up Account	LOC	LOC		xxx		
Operating Reserve	LOC	LOC		xxx		
	$0	$0	$0	xxx		
Marketing Reserve Special Needs	$45,000	$0	($45,000)	xxx		-100%
Initial Replacement Reserve Deposit	$81,000	$81,000	$0	xxx		0%
Bond Origination Guarantee	$0	$0	$0	xxx		
Social Services Reserve	$0	$0	$0	xxx		
Total Reserve Costs	$126,000	$81,000	($45,000)		$0	-36%
TOTAL APPRAISAL COSTS	$4,500	$4,500	$0		$4,500	0%
TOTAL CONTINGENCY COSTS	$246,099	$0	($246,099)		$0	-100%
OTHER						
TCAC App/Alloc/Monitor Fees	$36,272	$40,131	$3,859	xxx		11%
Environmental Audit	$0	$30,390	$30,390		$30,390	
Permit Processing Fees	$0	$2,715	$2,715		$2,715	
Due Diligence Acquisition	$0		$0		$0	
other	$0	$4,582	$4,582		$4,582	
Marketing	$0	$55,248	$55,248	xxx		
Relocation Expenses	$40,500	$150,485	$109,985		$150,485	272%
Furnishings	$10,000	$57,719	$47,719		$57,719	477%
Audit	$6,000	$15,385	$9,385	xxx		156%
Rehab due diligence	$31,785	$32,297	$512		$32,297	2%
Total Other Costs	$124,557	$388,951	$264,394		$278,187	212%
PROJECT COSTS	$4,662,318	$5,848,719	$1,186,401		$3,767,448	25%
DEVELOPER COSTS						
Developer Overhead/Profit	$301,682	$536,747	$235,065		$536,747	78%
Consultant/Processing Agent	$45,000	$30,019	($14,981)	xxx		-33%
Project Administration	$0	$0	$0		$0	
Other (specify)	$0	$0	$0		$0	
Total Developer Costs	$346,682	$566,766	$220,084		$536,747	63%
TOTAL PROJECT COST	$5,009,000	$6,415,485	$1,406,485		$4,304,195	28%

SOURCES AND USES WORKSHEET — Mercy Village Folsom

SOURCES:

	Final Commitment	Cost Certification	Variance	Percent of Total Updated Sources	Interest Rate
CHFA 1st Closing	2,350,000	1,195,224		18.6%	3.50%
CHFA 2nd Closing		1,154,776		18.0%	3.50%
CHFA B Loan	164,500	164,500	-	18.0%	3.50%
FHLB-AHP Loan	324,000	324,000	-	5.1%	0.00%
City of Folsom CDBG loan	-	92,940	92,940	1.4%	0.00%
SHRA HOME Loan	-	320,000	320,000	5.0%	4.00%
Equity					
City of Folsom Grant	1,435,000	1,450,000	15,000	22.6%	
Funds from Operations	-	38,620	38,620	0.6%	
Insurance Proceeds		40,195	40,195	0.6%	
General Partner Contribution		292,907	292,907	4.6%	
Interest Income		8,628	8,628	0.1%	
Limited Partner Equity	900,000	1,498,195	598,195	23.4%	
Total Sources	5,009,000	6,415,485	1,406,485	100.0%	
(Gap)/Surplus	-	0			

USES:

ACQUISITION	Final Comm.	Phase II	Variance	Eligible Costs	Percent of Variance
Total Land Cost or Value	$423,467	$405,438	($18,029) xxxx		-4.3%
Title and Recording	$0	$4,027	$4,027		
Off-Site Improvements	$0	$0	$0 xxxx		
Evaluation Reports	$0		$0		
Existing Improvements Value	$2,211,533	$2,212,470	$937	$929,692	0.0%
Total Acquisition Cost	$2,635,000	$2,621,935	($13,065)	$929,692	-0.5%
REHABILITATION					
Personal Property	$81,000	$103,210	$22,210	$103,210	27%
Structures	$1,207,003	$2,357,972	$1,150,969	$2,357,972	95%
Rehab prior to 7/31/98	$0	$0	$0	$0	
Contractor Overhead	$0		$0	$0	
Contractor Profit	$0		$0	$0	
Total Rehab. Costs	$1,288,003	$2,461,182	$1,173,179	$2,461,182	91%
NEW CONSTRUCTION					
Site Work	$0	$0	$0	$0	
Structures	$0	$0	$0	$0	
General Requirements	$0	$0	$0	$0	
Contractor Overhead	$0	$0	$0	$0	
Contractor Profit	$0	$0	$0	$0	
Other	$0	$0	$0	$0	
Total New Const. Costs	$0	$0	$0	$0	
ARCHITECTURAL FEES					
Design	$12,500	$33,986	$21,486	$33,986	172%
Supervision	$32,500	$32,500	$0	$32,500	0%
Total Architectural Costs	$45,000	$66,486	$21,486	$66,486	48%
SURVEY & ENGINEERING	$0	$7,362	$7,362	$7,362	
CONST. INTEREST & FEES					
Constructon Interest - Mercy	$61,375	$42,151	($19,224)	$12,999	-31%
Origination Fee	$10,742	$0	($10,742)	$0	-100%
Acquisition Loan interest	$0	$40,132	$40,132	$40,132	
Bond Premium	$10,742		($10,742)	$0	-100%
Taxes	$4,000	$9,399	$5,399 xxxx		135%
Insurance	$1,000	$108	($892)	$108	-89%
Title and Recording	$13,500	$13,429	($71)	$13,429	-1%
Total Const. Interest & Fees	$101,359	$105,219	$3,860	$22,803	4%
PERMANENT FINANCING					
Commitment Fee	$23,500	23,500	$0 xxxx		0%
Bridge Loan Fee	$1,645	$1,645	$0 xxxx		0%
Title and Recording	$10,000	$7,500	($2,500)		-25%
Bridge Loan Repayment		$0	$0 xxxx		
Bridge Loan Interest	$0	$17,668	$17,668 xxxx		
Construction Monitoring	$21,500	$21,600	$100 xxxx		0%
Risk Share	$9,000	$3,500	($5,500) xxxx		-61%
Total Perm. Financing Costs	$65,000	75,413	$10,413	$0	16%

USES:

Legal Fees	Final Comm.	Phase II	Variance		Eligible Costs	Percent of Variance
Lender Legal Pd. by Applicant	$15,500	$38,947	$23,447		$300	151%
Acquisition	$11,300	$5,086	($6,214)		$4,298	-55%
Total Attorney Costs	$26,800	$44,033	$17,233		$4,598	64%
RESERVES						
Working Capital	$0	$0	$0	xxx		
Rent Up Account	LOC	LOC		xxx		
Operating Reserve	LOC	LOC		xxx		
	$0	$0	$0	xxx		
Marketing Reserve Special Needs	$45,000	$0	($45,000)	xxx		-100%
Initial Replacement Reserve Deposit	$81,000	$81,000	$0	xxx		0%
Bond Origination Guarantee	$0	$0	$0	xxx		
Social Services Reserve	$0	$0	$0	xxx		
Total Reserve Costs	$126,000	$81,000	($45,000)		$0	-36%
TOTAL APPRAISAL COSTS	$4,500	$4,500	$0		$4,500	0%
TOTAL CONTINGENCY COSTS	$246,099	$0	($246,099)		$0	-100%
OTHER						
TCAC App/Alloc/Monitor Fees	$36,272	$40,131	$3,859	xxx		11%
Environmental Audit	$0	$30,390	$30,390		$30,390	
Permit Processing Fees	$0	$2,715	$2,715		$2,715	
Due Diligence Acquisition	$0		$0		$0	
other	$0	$4,582	$4,582		$4,582	
Marketing	$0	$55,248	$55,248	xxx		
Relocation Expenses	$40,500	$150,485	$109,985		$150,485	272%
Furnishings	$10,000	$57,719	$47,719		$57,719	477%
Audit	$6,000	$15,385	$9,385	xxx		156%
Rehab due diligence	$31,785	$32,297	$512		$32,297	2%
Total Other Costs	$124,557	$388,951	$264,394		$278,187	212%
PROJECT COSTS	$4,662,318	$5,848,719	$1,186,401		$3,767,448	25%
DEVELOPER COSTS						
Developer Overhead/Profit	$301,682	$536,747	$235,065		$536,747	78%
Consultant/Processing Agent	$45,000	$30,019	($14,981)	xxx		-33%
Project Administration	$0	$0	$0		$0	
Other (specify)	$0	$0	$0		$0	
Total Developer Costs	$346,682	$566,766	$220,084		$536,747	63%
TOTAL PROJECT COST	$5,009,000	$6,415,485	$1,406,485		$4,304,195	28%

Executive Summary

Date: 15-Dec-97

Project Profile:

Project :	Duchow Way Family Homes	Borrower:	Mercy Housing California V
Location:	1100 thru 1190 Duchow Way Folsom 95630	GP LP:	Mercy Properties Inc. CEF
County:	Sacramento		
program:	Special Needs	CHFA # :	97026N

Financing Summary:

	Final	Per Unit
CHFA First Mortgage	$2,350,000	$29,012
FHLB-AHP Loan	$324,000	$4,000
Limited Partner Equity	$900,000	$11,111
City of Folsom Grant	$1,435,000	$17,716

Unit Mix:

Type	Size	Number	AMI	Rent	Max Income
0 BR	303	8	50%	342	$16,950
1 BR	639	14	50%	385	$19,350
2 BR	775	58	50%	434	$21,800
2 BR	775	1	N/A	0	N/A
		81	50%	$384	$19,267

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CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment

Duchow Way **Family** Homes
1100 - 1190 Duchow Way
Folsom, California
CHFA LN # 97026N

SUMMARY:

This commitment request is for a **$2,350,000** permanent loan for the Duchow Way Family Homes, an 81-unit existing family apartment building.

TERMS:

1st Mortgage:	**$2,350,000**
Interest Rate:	**3.50%**
Term:	30
Financing:	Tax Exempt
Special Needs: Population	Very low income families of inmates in Folsom State Prisons

SPECIAL NEEDS TERMS:

Interest Subsidy: The Agency anticipates utilizing Financial Adjustment Factor (FAF) funds to reduce the interest rate **to 3.5%.** The reduced interest rate is required due to the **limited** income of the special needs tenants and required capital improvements to the property.

Social Services: The sponsor has **secured** $515,000 from non-agency sources to fund the social **service** programs for **special** needs tenants during the first 15 years of the project. In the event the *sponsor* elects to **discontinue** the **social** service aspect of **this** project after year **10,** the Agency **will** increase **the** rate to an appropriate loan rate at the time of conversion effective for the remainder of the term. Initially, **rents will be** set at **no more than 42%** of Area Median Income *(AMI)* .The Agency **will** require that 100% of the units **be** restricted to families **who earn** 50% or less of area median income. In the event the

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sponsor elects to discontinue the service component of this project after year 10, the Agency's Occupancy restrictions will be modified to 20% at 50% of AMI and the balance to be determined by the Agency at the time of conversion.

LOCALITY INVOLVEMENT.

The City of Folsom is making a significant contribution to both the development of this property and the ongoing special needs services provided to the tenants. Assisting this special needs population is the City of Folsom's top housing priority. Folsom has provided: :

- $1,435,000 in grant funds used for the acquisition of the project.
- additional $515,000 commitment to provide grant funds from their 1988-1999 and 1999-2000 funding cycles to fund the first 15 years of services for the project. These funds will be given as a grant to the Mercy Services Corporation, the management arm of the sponsor, Mercy Charities Housing California.
- assistance to maintain site security through the presence of a police substation. The Folsom police department is an active member of the coalition of groups assisting in this project and will maintain the substation if the sponsor deems it necessary.

SPECIAL NEEDS:

Special Need Population. The families of prisoners represent a distinct rental population whose problems result from the incarceration of one of the family members. Families of prisoners tend to be very low income because they have lost the income of one of the parents due to incarceration. Families of prisoners are also low income because they are not competitive in the job market. They face problems of extreme social, emotional and psychological isolation, discrimination based upon their connection to the prison, and drug and alcohol abuse. When families of prisoners are employed, they tend to be underemployed, due also to lower than average educational levels.

Problems faced by families of prisoners. The problems faced by families of prisoners are different from those faced by other single parent households because families of prisoners also suffer the emotional trauma of disrepute in the community and denial of normal social outlets to grieve for the "departed" member. The remaining parent must assume the roles of sole disciplinarian and caretaker and has the additional dilemma of deciding what and how to tell the children and extended family members. The remaining parent is also faced with the complexity of maintaining contact with the offender and dealing with the prison environment and the criminal justice system.

Incarceration is especially difficult for the children of prisoners. Researchers have concluded that children experience ostracism, guilt, discipline problems, failure to sustain school performance levels, loss of friends, and symptoms such as eating disorders, insomnia, or clinging. Many children of prisoners react through aggressive or withdrawn behavior with regression, nightmares, insomnia, truancy, poor achievement, teen age pregnancy, drug use, deep depression, and even suicide.

According to a representative at the "Welcome House" at Folsom State Prison, without outside intervention, 65% of the children of prisoners will end up incarcerated themselves. According to the representatives of Powerhouse Ministries, a local social service p u p that assists prisoners families in Folsom, 100% of the children of inmates in Folsom who were interviewed by Powerhouse Ministries staff indicated that they want to grow up to be gangsters like their dads. Discussions between the Borrower and area schools indicate that most children of prisoners in Folsom drop out of school, and most of them drop out before they enter high school.

Special Needs Rent Levels. The unit rents will be subsidized to 42% of the Area Median Income to make the units affordable to this special needs population. Rents will be at 42% of median for both special needs and non-special needs families to insure diversity in the tenants at the property. It is hoped that this rent level will attract families to the project who are employed.

Special Needs Services. Mercy Services Corporation (MSC), the social services and property management arm of the borrower, will administer the social services program for Duchow Way. The $515,000 grant from the City of Folsom will fund the first fifteen years of services provided by Mercy Services Corporation. MSC has extensive experience in providing special needs programs. All services will be offered to both families of prisoners and the non-special needs families. Specifically the grant funds will fund the following programs:

- a resident services coordinator who will be at the property 30 hours a week.
- a Community Activities Program which will include sports, games, movie nights, social events and field trips. This program will be run by the resident services coordinator.
- a Women's Art Therapy Group that will be offered 2 hours per week, 42 weeks per year. MSC will pay for both the instructor and for child care.
- a Children's Art Therapy Group that will be offered 2 hours per week, 46 weeks per year. MSC will pay for the instructor.
- a After School Homework Program that will be offered 2 hours per school day, 46 weeks per year. MSC will pay for the coordinator.

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- Computer Training Classes at two different levels for both children and adults. One class will be aimed at basics, and the other level will be for more advanced skills. This will be coordinated by the resident services coordinator, and will rely on a grant of computers from Hewlett Packard, Mercy Foundation, and Catholic Healthcare West.

In addition to the services paid for by the City of Folsom grant, MSC will arrange for health care, child care, job training and psychological counseling services to the tenants for free. Mercy Services Corporations has already entered into four separate Memorandums of Understanding with two service providers, Powerhouse Ministries and Mercy Hospital Folsom to run additional programs. Powerhouse Ministries is located across the street from the project and Mercy Hospital Folsom is located in the City of Folsom.

- Powerhouse Ministries has agreed to provide space for a child wellness clinic and Mercy Hospital has agreed to provide the staff and equipment. This will take the form of a health fair, and will be open to all residents of the neighborhood.

- Both the Folsom School Department and Powerhouse Ministries have agreed to provide space for a family oriented health clinic for residents and Mercy Hospital has agreed to provide the staff and equipment. Mercy Hospital has also agreed to provide a home health or parish nurse program which will be delivered to residents at the site.

- Powerhouse Ministries has agreed to house a trailer on its land for a daycare center that would accommodate ten to twenty children from Duchow Way. MSC would provide the daycare workers. MSC and Powerhouse Ministries have both agreed to fundraise for the cost of the trailer.

- Mercy Hospital has agreed to provide internship program for residents to teach them job skills at an administrative level. This program would accommodate one to two residents at a time for a six month internship.

Additionally MSC is currently discussing partnerships with the Folsom School District, the Park and Recreation Department and the Police Department to assist in a mentoring program geared toward school aged children to keep them enrolled in school and assist them with their studies.

Mercy Hospital is working with MSC to develop a counseling program at the site with both the University of San Francisco Branch Campus in Sacramento, and the University of California at Davis. Services to be provided by the counseling program would include both cast management and crisis intervention.

Special Needs Housing Demand. The sponsor, Mercy Charities Housing California (MCHC) intends to target 40% of the project to prisoners families and the remainder of

the units to very low income families. Because of their chronic inability to pay market rents, the only housing stack available to the families of prisoners in Folsom are in the 300 older housing units and the 229 subsidized units discussed in the "Market" section of this report,

The Bay Area Economics (BAE) Market Study, dated September 19,1997, addressed the marketability of the units not targeted at inmate families but was not able to answer it definitively. However, BAE's research indicated that diversity would be attainable if the non-inmate family units were offend at 42% of AMI and affordable to very low income families because! of the lack of very low income housing in Folsom. In the opinion of the project sponsor, the continued diversity of the project would only be enhanced by the proposed rehabilitation and services.

Folsom State Prison houses 3,828 inmates and the California State prison houses 3,126 inmates. The average tenure of a prisoner is 21 months although many are serving longer sentences. Statistically 18% of state prisoners are married, and 11% live in common law relationships; 56% of the men and 67% of the women in state prisons have at least one child under 18 years of age; 75% of prisoners wives expect to resume a shared relationship with the offender upon his release.

There are approximately 2,000 prisoners in the two Folsom prisons with families. Bay Area Economics was able to locate 40 to 50 prisoner families in the City. Currently between 15 and 30 prisoner families live in Duchow Way, and another 20 families live in another small cluster of multifamily properties in Folsom. BAE determined that most families of inmates do not disclose this fact to their landlords, based on interviews with landlords and local service providers. The Agency and the sponsor are in the process of determining more accurately how many families of inmates live in Folsom and how many more would live in Folsom if rental opportunities were available to them.

Anecdotal information from the Department of Corrections "Welcome House" Program at the Folsom Prisons and Powerhouse Ministries, a local social service agency that works with inmates families, indicates that many of the families of prisoners wish to locate in or near Folsom to be near incarcerated family members but are unable to find apartments that they can afford. The borrower will market the special needs units through referrals from the "Welcome House!' Program, Powerhouse Ministries, and the referrals from local schools and churches.

MARKET:

A. Market Overview

The City of Folsom is located in the foothills of the Sierra Nevada, 20 miles northeast of Downtown Sacramento. It has one of the highest median incomes in Sacramento County and has few affordable housing options. Folsom is the site to two state prisons.

The housing stock is predominantly single family (77 percent) and high priced. The median sale price is $181,000. The few existing multifamily projects have average occupancy rates greater than 98 percent. All future multifamily developments currently in the process are projected to be market rate housing.

B. Housing Supply

Single Family. The City of Folsom has an estimated 14,100 housing units, of which approximately 77 percent (10,857 units) are single family homes. Single family homes are generally expensive relative to regional housing costs. During the past year, the median sale price for homes sold in Folsom (new and resale) was approximately $181,000. Fewer than five percent of the homes sold for less than $100,000. Single family 3 bedroom homes rent for approximately $900 and 4 bedroom homes rent for as much as $1200 or more. None of the single family housing units axe affordable to families with incomes at or below 60% of area median income.

Existing Multifamily. Multifamily units comprise 17 percent (2,397 units) of the housing stock and the remaining 6 percent are mobile homes. Only 748 new multifamily units have been added to Folsom's housing stock in the 1990's.

The bulk of the City's multifamily rental housing (2,097 units) is contained in medium to large apartment projects constructed from 1980 to the present. These projects are generally in good to excellent condition, offer extensive unit and complex amenities, and larger unit sizes. Rents in these projects range from $600 to $1060 for one bedroom units, and $685 to $1090 for two bedroom units. None of these units are affordable to families with incomes at or below 60% of area median income.

There is also a small submarket (300 units) of existing lower cost rentals which tend to be found in older, smaller projects that offer units in average to poor condition, minimal unit and complex amenities and relatively inexpensive rents, ranging from $375 to $400 for a one bedroom, and $450 to $475 for a two bedroom unit. The Duchow Way project currently falls within this submarket. Once the project is renovated, it will straddle its existing market and the higher quality rental market.

There are also 229 subsidized units in three projects within the City of Folsom and nearby unincorporated Sacramento County. These three projects report 100% occupancy and have waiting lists.

Futuro Projects. Based on project information compiled by the City of Folsom Planning Department, residential projects totaling approximately 5,400 residential dwelling units are either under development, planned, or proposed for development. Based on the residential growth rate projected for the City of Folsom by the Sacramento Area Council of Governments (SACOG), this represents a 7 to 8 year supply of new housing.

Of the total housing (5,400) units planned, proposed, or under construction, approximately 70 percent (3,780 units) are single family units, and 30 percent (1,620 units) are multifamily units. According to Planning Department staff, all of the pipeline housing units are expected to be offered at market rate. There are no planned additions to the supply of low cost housing in Folsom. BAE reported that of the 14 planned residential developments, developers were focusing on the single family component and planning to build or sell the multifamily component last. Some developers indicated plans to substitute single family for the planned multifamily units.

Rent Level	Subject	Mkt Rate		
Zero bedroom				
50%	$342	None Available	NIA	NIA
One bedroom				
50%	$385	$5 10	$125	25%
Two Bedroom				
50%	$424	$580	$156	27%

C. Apartment Demand

The multifamily rental market in Folsom is relatively expensive. The 2097 market rate apartments built after 1980 only are affordable to families with incomes at 80% of area median income or above. In these projects vacancy rates are 0% to 2%, with vacancies attributed to normal tenant turnover.

The older housing stock (300 Units) is affordable to families with incomes below 80% of area median income. These units also have very low vacancy rates, typically 2% with vacancies attributed to normal tenant turnover.

As renovated, Duchow Way would represent the upper tier of the existing low-cost apartment supplying Folsom. The projects rental structure will be lower than its competition and the apartments will be in excellent condition. The completed project will offer very good value to tenants.

893 **Very Low Income Rental Demand.** The City's 1992 Housing Element indicates that a total of 2,564 local households (or 29 percent) of 1990 households had housing cost burdens of over 30 percent of their incomes.

Bay Area Economics estimates that a city with Folsom's existing household count and tenure split would normally be expected to include about 1,437 very low income renter households With one to three persons, based on an analysis of 1990 Census Public Use Microdata Sample(PLUMS) data regarding renter household income distributions for Sacramento County overall.

This figure is much smaller than the City of Folsom's existing supply of 529 housing units that potentially accommodate these very low income households and indicates pent-up demand. The numbers indicate that 1) very low-income households are currently experiencing excessive rent burdens, and 2) many of these families would otherwise prefer to live in Folsom, but axe forced to reside in other locations where they axe able to find more affordable housing.

Location	0-50% AMI	51-80% AMI	81%+ AMI
Folsom	1,220	832	839

D. Market Conclusion

Duchow Way will experience strong market demand from the targeted households since the proposed rental rates for the rehabilitated units are among the most affordable in Folsom. The unit features and complex amenities offered are competitive with other low-cost housing offered elsewhere in Folsom. Additionally, the rehabbed units will be in much better shape than the competition and the rents will be lower. This combined with the array of services offered by Mercy Charities, along with the extremely low vacancy rates maintained by Mercy in their entire portfolio (less than 2% vacancy with over 2,000 units managed), make the demand risk on this project extremely low.

SITE AND PROJECT

A. The Site and Project

The site is situated approximately eight miles southeast of Interstate 80 in a mixed use commercial and multifamily residential neighborhood in the City of Folsom. The total land square footage of the site is 98,546 square feet. The gross residential area is 58,549 square feet. The ten Duchow Way apartment buildings were all built between 1960 and 1965 and vary in need of rehabilitation from cosmetic to structural. All buildings are situated contiguously on Duchow Way, a two lane residential street. The proposed development includes all but one of the apartment buildings on the block.

Across Duchow Way to the north are well maintained duplexes and single family homes. There is an alley to the south that separates the apartments from a commercial center. This retail shopping area is one of many retail and office complexes on the main thoroughfare south of the project.

Mercy Charities Housing California purchased 9 of the 10 buildings in October 1997 with the remaining building in escrow. Before acquisition by MCHC, the ten apartment buildings were owned and managed by seven separate absentee property owners. As a result, the buildings have gone into disrepair.

The buildings are typically two stories tall and have exterior comdors. They are between 32 and 37 years old. Most of the units are provided with gas fired wall furnaces and window mounted air conditioners. Overall, the properties exhibit significant deferred maintenance and the condition of the buildings ranges from fair to poor. Some of the buildings have structural pest damage, and damage to the building exterior and interiors. Parking is primarily available in unsecured parking areas at the rear buildings accessed via the alley, and on the street in front of the buildings. A limited number of the buildings have attached garages.

B. Rehabilitation Work

The total budget for both repairs and new construction is approximately $1,300,000 or $16,000 per unit.

The ten separate apartment projects will be visually unified through architectural treatments and landscaping to give the sense of a single project. The addition of a new office and community center will help create the sense that the ten previously independent buildings are now joined into one project.

MCHC proposes to upgrade all the unit interiors, and replace any structurally weakened components of the buildings. Most of the units will be painted and receive new carpeting. The remainder of the funds will be used to upgrade appliances as needed and make repairs necessary to make the units safe and habitable.

Different repair work is required at the various buildings but the bulk of the funds will be spent to address the following problems: removing dry rot; removing damaged balconies; replacing stairs; installing exterior lighting; repairing plumbing; installing new roofs and applying new paint to the buildings. When completed, the units will be renovated to a level of decent, clean, basic functionality which will compare to their "as new" condition.

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OCCUPANCY RESTRICTIONS:

CHFA: 100% of the units will be restricted to 50% or less of median income.

Tax Credits: 100% of the units will be restricted to 60% or less of median income.

ENVIRONMENTAL:

An Environmental Site Assessment from Barr and Clark, dated September 16,1997, indicates that there are no environmental concerns for the Duchow Way site in federal, state, or local database records. In addition, the report prepared to ASTM standards indicates that there is a low likelihood of adverse impact to the environmental integrity of the site from leaking underground tanks.

CHFA commissioned a comprehensive lead-based paint and asbestos survey of each building. The reports, also by Barr and Clark and dated September 22,1997 and December 2,1997, indicated that there is limited presence of these hazards in the buildings.

Only three (3) exterior doors were identified as having lead based paint. The remediation plan recommends that these doors be replaced.

Asbestos was found in the eighteen (18) linoleum kitchen floors, and five (5) bathroom floors. The remediation plan recommends an Operations and Maintenance Plan for those floors that are not damaged and will not be disturbed during the construction. But in the case of the ten (10) kitchen floors and one (1) that were considered damaged, the remediation plan requires that the asbestos containing material be disposed of by a prequalified, registered and certified asbestos abatement contractor.

Asbestos was also found in the acoustic ceiling, wallboard, and exterior stucco in building 1190. The condition of this asbestos was "good" and no action is required at this time. The Agency will require an Operations and Maintenance Plan for the maintenance of all the asbestos containing material on the property.

ARTICLE XXXIV:

An acceptable opinion letter will be required before loan close.

Mercy Charities Housing California (MCHC) is one of the state's leading developers of affordable housing. The Sisters of Mercy and Catholic Charities of the Archdiocese of San Francisco merged their affordable housing programs to create MCHC.

MCHC has developed 2,074 units of affordable housing since 1974. They currently have 1357 units either in construction or in preliminary stages of development.

MCHC is a significant producer of projects for special needs tenants. MCHC has developed and manages ten (10) special needs projects (350 units) since 1983. MCHC's special needs projects cater to the needs of many different populations, including individuals and families who were formerly homeless, those living with AIDS and the physically disabled.

MCHC is an affiliate of Mercy Housing, Inc. (MHI), a nationwide nonprofit that is at the heart of multiple regional development corporations that are active in 13 states. MHI serves as an administrative center for the Mercy system of affordable housing developers. The centralized approach gives the regional development corporations the resources of a large corporation when it comes to human resources, accounting, financial reporting and marketing. It also gives affiliates, like MCHC access to the Mercy Loan Fund, which is used for predevelopment, and construction debt. This Fund will be utilized in Duchow Way for construction financing.

CONTRACTOR:

The contractor is David Barden, principal of D.B.A. Barden Design and Construction. Mr. Barden has owned the firm since 1979 and has designed and built over 100 custom homes and over 100 residential and commercial remodels. The firm rehabilitated three apartment buildings in the last two years. The largest of these projects was the Arbor Pointe Apartments on Old Placerville Road in Sacramento. Total work was approximately $1 million.

The firm also designed and built a convent for the Sisters of Mercy, in Auburn in 1993.

ARCHITECT:

Shimotsu Architecture is a six person, Sacramento area based architectural/planning/interior design firm, providing a wide range of services for public and private clients throughout California. The firm has extensive experience in the design of a wide variety of new and renovation/remodeling projects ranging from industrial, governmental, commercial and military to educational and residential projects.

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Shimotsu Architecture recently designed the CHFA financed Renwick Square, a 150-unit senior project.

MANAGEMENT AGENT:

Mercy Services Corporation, the management corporation of MHI will manage Duchow Way Family Homes. In addition to managing MCHC's developments, Mercy Services Corporation manages affordable housing projects for all the MHI affiliates and other nonprofit housing developers. MSC currently manages 80 properties with over 3,600 units and has been an integral part of the planning and design of the Duchow Family Way Homes project and its service program. MSC is divided into Property Management and Resident Services. Resident Services is headed by Sister Patsy Harney, the Regional Resident Services Coordinator who will oversee resident services at Duchow Way.

Project Summary

Date: 15-Dec-97

Project Profile:

Project: Duchow Way Family Homes
Location: 1100 thru 1190 Duchow Way
Folsom 95630

County: Sacramento
Borrower: Mercy Housing California V
GP: Mercy Properties Inc.
LP: CEF

Program: Special Needs
CHFA #: 97026N

Appraiser: Tim Wright, MAI
Palmer, Groth & Pietka

Cap Rate:		8.50%
Market	$	3,100,000
Income:	$	3,200,000
Final Value:	$	3,200,000

LTC/LTV:	
Loan/Cost	46.9%
Loan/Value	73.4%

Project Description:

Units	81
Handicap Units	2
Bldge Type	Rehabilitation
Buildings	10
Stories	2
Gross Sq Ft	58,549
Land Sq Ft	98,546
Units/Acre	36
Total Parking	65
Covered Parking	25

Financing Summary:

	Amount	Per Unit	Rate	Term
CHFA First Mortgage	$2,350,000	$29,012	3.50%	30
FHLB-AHP Loan	$324,000	$4,000	0.00%	30
Limited Partner Equity	$900,000	$11,111		
City of Folsom Grant	$1,435,000	$17,716		

Unit Mix:

Type	Size	Number	AMI	Rent	Max Income
0 BR	303	8	50%	342	$16,950
1 BR	639	14	50%	385	$19,350
2 BR	775	58	50%	424	$21,800
2 BR	775	1	N/A	0	N/A
		81	50%	$384	$19,367

Fees, Escrows and Reserves:

Escrows	Basis of Requirements		Amount	Security
Commitment Fee	1.00%	of Loan Amount	$23,500	Cash
Finance Fee	0.00%	of Loan Amount	$0	Cash
Bond Origination Guarantee	1.00%	of Loan Amount	$23,500	FAF funds
Rent Up Account	15.00%	of Gross Income	$60,059	LOC
Operating Expense Reserve	10.00%	of Gross Income	$40,039	LOC
Marketing	10.00%	of Gross Income	$40,039	Cash
Initial Replacement Reserve Deposit	$1,000	per unit	$81,000	Cash
Annual Replacement Deposit	$425	per unit	$34,425	Operations

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Sources and Uses — Duchow Way Family Homes

SOURCES:

Name of ***Lender / Source***	Amount	% of total	$ per sq ft	$ per unit
CHFA First Mortgage	2,350,000	46.9%	40.1	29,012
FHLB-AHP Loan	324,000	6.5%	5.5	4,000
Total **Institutional** Financing	2,674,000	53.4%	45.7	33,012
Equity *Financing*				
Tax Credits	900,000	18.0%	15.4	11,111
City of Folsom Grant	1,435,000	28.6%	24.5	17,716
Total Equity Financing	2,335,000	46.6%	39.9	28,827
TOTAL SOURCES	5,009,000	100.0%	85.6	61,840

USES:

Acquisition	2,635,000	52.6%	45.0	32,531
Rehabilitation	1,288,003	25.7%	22.0	15,901
New Construction	0	0.0%	-	0
Architectural Fees	45,000	0.9%	0.8	556
Survey and Engineering	0	0.0%	-	0
Const. Loan Interest & Fees	101,359	2.0%	1.7	1,251
Permanent Financing	65,000	1.3%	1.1	802
Legal Fees	26,800	0.5%	0.5	331
Reserves	126,000	2.5%	2.2	1,556
Appraisal Costs	4,500	0.1%	0.1	56
Construction Contingency	246,099	4.9%	4.2	3,038
Local Fees	0	0.0%	-	0
Relocation and Due Diligence	124,557	2.5%	2.1	1,538
PROJECT COSTS	4,662,318	93.1%	79.6	57,559
Developer Fee	301,682	6.0%	5.2	3,724
Consultant/Processing Agent	45,000	0.9%	0.8	556
TOTAL **USES**	5,009,000	100.0%	85.6	61,840

Annual Operating Budget

Duchow Way Family Homes

		% of total	$ per unit
INCOME:			
Total Rental Income	392,616	98.1%	4,847
Laundry	7,776	1.9%	96
Gross Potential Income (GPI)	400,392	100.0%	4943
Less:			
Vacancy Loss	20,020	5.0%	247
Total Net Revenue	380,372	95.0%	4,696
EXPENSES:			
Payroll	66,037	17.6%	815
Administrative	56,270	15.0%	695
Utilities	38,880	10.4%	480
Operating and Maintenance	48,900	13.1%	604
Insurance and Business Taxes	3,046	0.8%	38
Taxes and Assessments	0	0.0%	-
Reserve for Replacement *Deposits*	34,425	9.2%	425
Subtotal Operating *Expenses*	247,558	66.2%	3,056
Financial Expenses			
Mortgage Payments (1st loan)	126,631	33.8%	1,563
Total Financial	126,631	338%	
Total Project Expense	374,189	100.0%	4,620

CASH FLOW — Dockside Way Family Homes — CHFA # 970209

RENTAL INCOME	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Market Rent Increase	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Market Rents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.75%	2.75%
Affordable Rents	392,616	402,431	412,492	422,804	433,375	444,209	455,314	466,697	478,364	490,324	503,807
TOTAL RENTAL INCOME	392,616	402,431	412,492	422,805	433,375	444,209	455,314	466,697	478,364	490,324	503,808
OTHER INCOME											
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Laundry	7,776	7,970	8,170	8,374	8,583	8,798	9,018	9,243	9,474	9,711	9,954
Other Income	0	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	7,776	7,970	8,170	8,374	8,583	8,798	9,018	9,243	9,474	9,711	9,954
GROSS INCOME	400,392	410,402	420,662	431,178	441,958	453,007	464,332	475,940	487,839	500,035	513,761
Vacancy Rate : Market	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vacancy Rate : Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	20,020	20,122	20,625	21,140	21,669	22,210	22,766	23,335	23,918	24,516	25,190
EFFECTIVE GROSS INCOME	380,372	390,280	400,037	410,038	420,289	430,796	441,566	452,605	463,921	475,519	488,571
OPERATING EXPENSES											
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	213,133	221,658	230,525	239,746	249,335	259,309	269,681	280,468	291,687	303,355	315,489
Replacement Reserve	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425
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%
Taxes and Assessments	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	247,558	256,083	264,950	274,171	283,760	293,734	304,106	314,893	326,112	337,780	349,914
NET OPERATING INCOME	132,814	134,197	135,088	135,868	136,529	137,062	137,460	137,712	137,808	137,739	138,657
DEBT SERVICE											
CHFA - A Loan	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631
CASH FLOW after debt service	6,184	7,566	8,457	9,237	9,898	10,432	10,829	11,081	11,178	11,108	12,027
DEBT COVERAGE	1.05	1.06	1.07	1.07	1.08	1.08	1.09	1.09	1.09	1.09	1.09

CASH FLOW

RENTAL INCOME	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22
Market Rent Increase	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Market Rents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Affordable Rent Increase	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Affordable Rents	517,662	531,898	546,525	561,555	576,997	592,865	609,168	625,921	643,133	660,820	678,992
TOTAL RENTAL INCOME	517,662	531,898	546,525	561,555	576,997	592,865	609,169	625,921	643,133	660,820	678,992
OTHER INCOME											
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Laundry	10,203	10,458	10,719	10,987	11,262	11,544	11,832	12,128	12,431	12,742	13,060
Other Income	0	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	10,203	10,458	10,719	10,987	11,262	11,544	11,832	12,128	12,431	12,742	13,060
GROSS INCOME	527,865	542,356	557,244	572,542	588,259	604,408	621,001	638,049	655,565	673,562	692,053
Vacancy Rate : Market	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vacancy Rate : Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	25,883	26,595	27,326	28,078	28,850	29,643	30,458	31,296	32,157	33,041	33,950
EFFECTIVE GROSS INCOME	501,982	515,761	529,918	544,464	559,409	574,765	590,542	606,753	623,408	640,521	658,103
OPERATING EXPENSES											
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	328,108	341,233	354,882	369,077	383,840	399,194	415,162	431,768	449,039	467,001	485,681
Replacement Reserve	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425
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%
Taxes and Assessments	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	362,533	375,658	389,307	403,502	418,265	433,619	449,587	466,193	483,464	501,426	520,106
NET OPERATING INCOME	139,448	140,103	140,611	140,962	141,144	141,146	140,955	140,559	139,944	139,095	137,997
DEBT SERVICE											
CHFA - A Loan	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631
CASH FLOW after debt service	12,818	13,472	13,980	14,331	14,513	14,515	14,325	13,929	13,313	12,464	11,367
DEBT COVERAGE	1.10	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.10	1.09

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CASH FLOW

RENTAL INCOME	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
Market Rent Increase	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Market Rents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Affordable Rent Increase	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Affordable Rents	697,664	716,850	736,564	758,660	781,420	804,863	829,009	853,879
TOTAL RENTAL INCOME	697,664	716,850	736,564	758,661	781,420	804,863	829,009	853,879
OTHER INCOME								
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Laundry	13,387	13,722	14,065	14,416	14,777	15,146	15,525	15,913
Other Income	0	0	0	0	0	0	0	0
TOTAL OTHER INCOME	13,387	13,722	14,065	14,416	14,777	15,146	15,525	15,913
GROSS INCOME	711,051	730,572	750,628	773,077	796,197	820,009	844,534	869,792
Vacancy Rate : Market	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vacancy Rate : Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	34,883	35,843	36,828	37,933	39,071	40,243	41,450	42,694
EFFECTIVE GROSS INCOME	676,168	694,729	713,800	735,144	757,126	779,766	803,083	827,098
OPERATING EXPENSES								
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	505,108	525,312	546,325	568,178	590,905	614,541	639,123	664,688
Replacement Reserve	34,425	34,425	34,425	34,425	34,425	34,425	34,425	34,425
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Taxes and Assessments	0	0	0	0	0	0	0	0
TOTAL EXPENSES	539,533	559,737	580,750	602,603	625,330	648,966	673,548	699,113
NET OPERATING INCOME	136,635	134,992	133,050	132,541	131,796	130,800	129,535	127,985
DEBT SERVICE								
CHFA - A Loan	126,631	126,631	126,631	126,631	126,631	126,631	126,631	126,631
CASH FLOW after debt service	10,005	8,362	6,420	5,910	5,166	4,169	2,905	1,355
DEBT COVERAGE	1.08	1.07	1.05	1.05	1.04	1.03	1.02	1.01

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DUCHOW WAY FAMILY HOMES - FOLSOM(REGIONAL)

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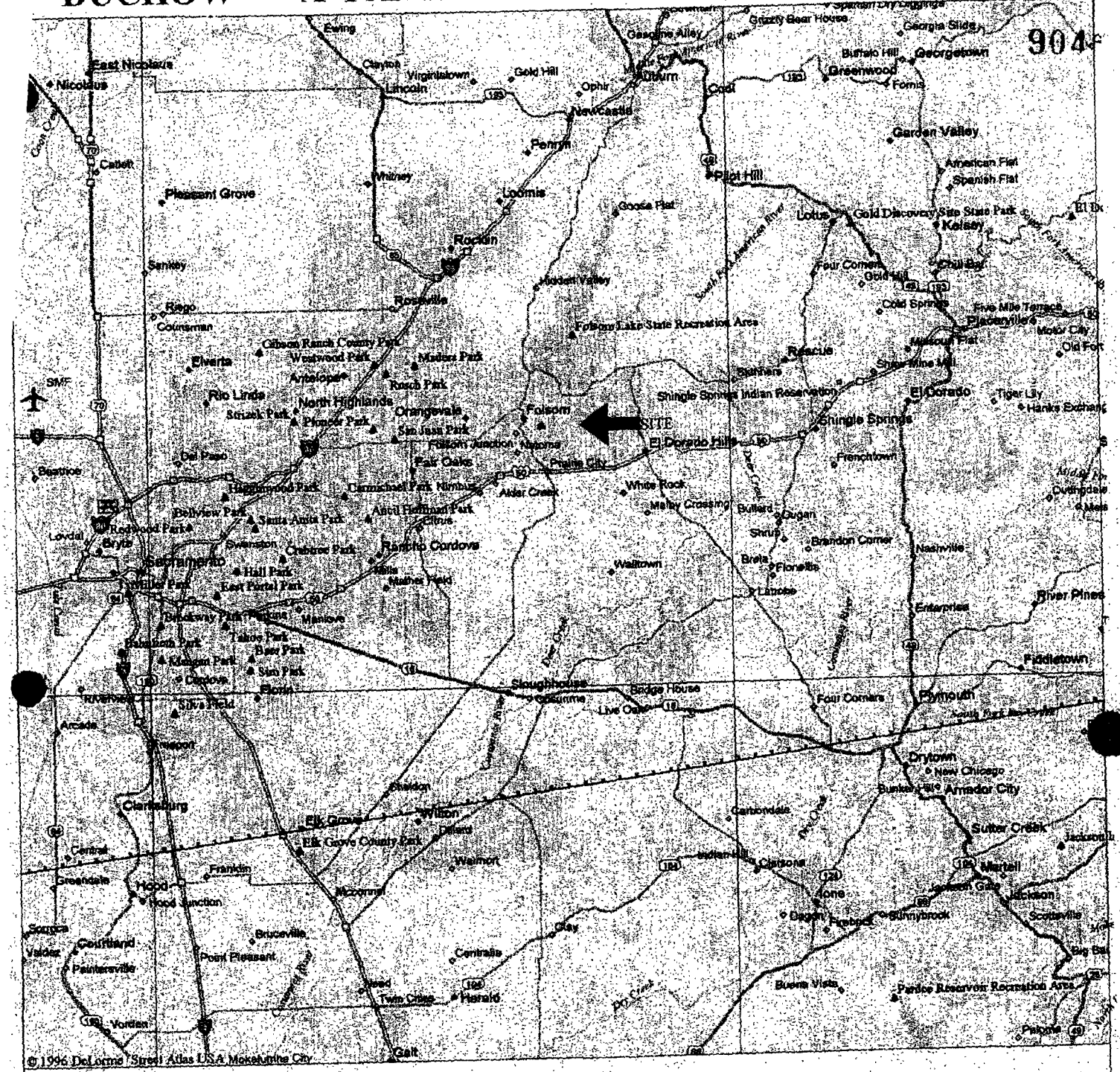


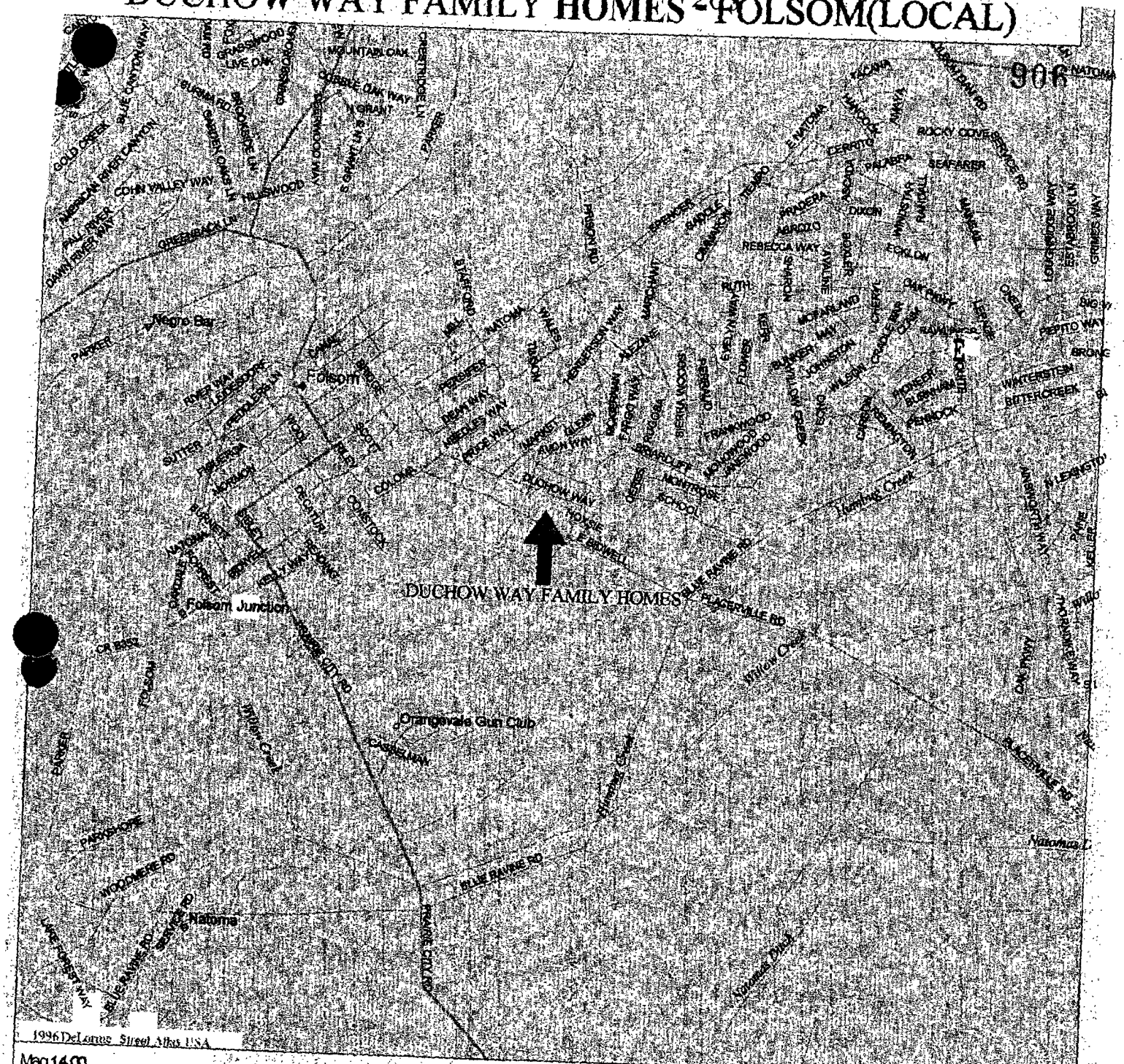
Mag 10.00
Mon Dec 15 13:53 1997
Scale 1:400,000 (at center)

5 Miles

10 KM

- Major Connector
- State Route
- Primary State Route
- Interstate/Limited Access
- Rest Area with facilities
- Point of Interest
- County Seat
- State Capital
- Small Town
- Park/Reservation
- Locale
- City
- Sched Service Airport
- Exit
- Population Center
- Land

DUCHOW WAY FAMILY HOMES 203 FOLSOM(LOCAL)



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2000 Feet

500 Meters

- Local Road
- Major Connector
- Interstate/Limited Access
- Utility/Pipe
- Railroad
- Point of Interest
- Small Town
- Geographic Feature
- Locale
- Cemetery
- Population Center
- Water
- Woodland
- River/Canal

RESOLUTION 98-03

RESOLUTION AUTHORIZING A ***FINAL*** LOAN **COMMITMENT**

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application from Mercy Housing California V, a California limited partnership, (the "Borrower"), seeking a loan commitment under the Agency's Tax Exempt Loan Program in the mortgage amount described herein, the proceeds of which are to be used to provide a mortgage loan for a development to be known as Duchow Way Family Homes (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which has prepared its report dated December 15,1997 (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 October 9, 1997, the Executive Director has exercised the authority delegated to him/her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

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

NOW, THEREFORE, BE IT RESOLVED by the Board:

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to the recommended terms and conditions set forth in the CHFA Staff Report, in relation to the Development described above and as follows:

PROJECT NO.	DEVELOPMENT NAME/ LOCALITY	NO. UNITS	MORTGAGE AMOUNT
97-026-N	Duchow Way Family Homes Folsom/Sacramento	81	$2,350,000

2. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency is hereby authorized to modify the

PAPER CALIFORNIA (REV. 8-72)

mortgage amount so stated in this resolution by an amount not to exceed seven percent (7%) without further Board approval.

3. All other material modifications to the final commitment, including changes in mortgage amount of more than seven percent (7%), must be submitted to the Board for approval. "Material modifications" as used herein means modifications which, in the discretion of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency, change the legal, 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 98-03 adopted at a duly constituted meeting of the Board of the Agency held on January 8,1998, at Millbrae. California.

ATTEST:_____
Secretary

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OF CALIFORNIA
13 (REV. 8-72)

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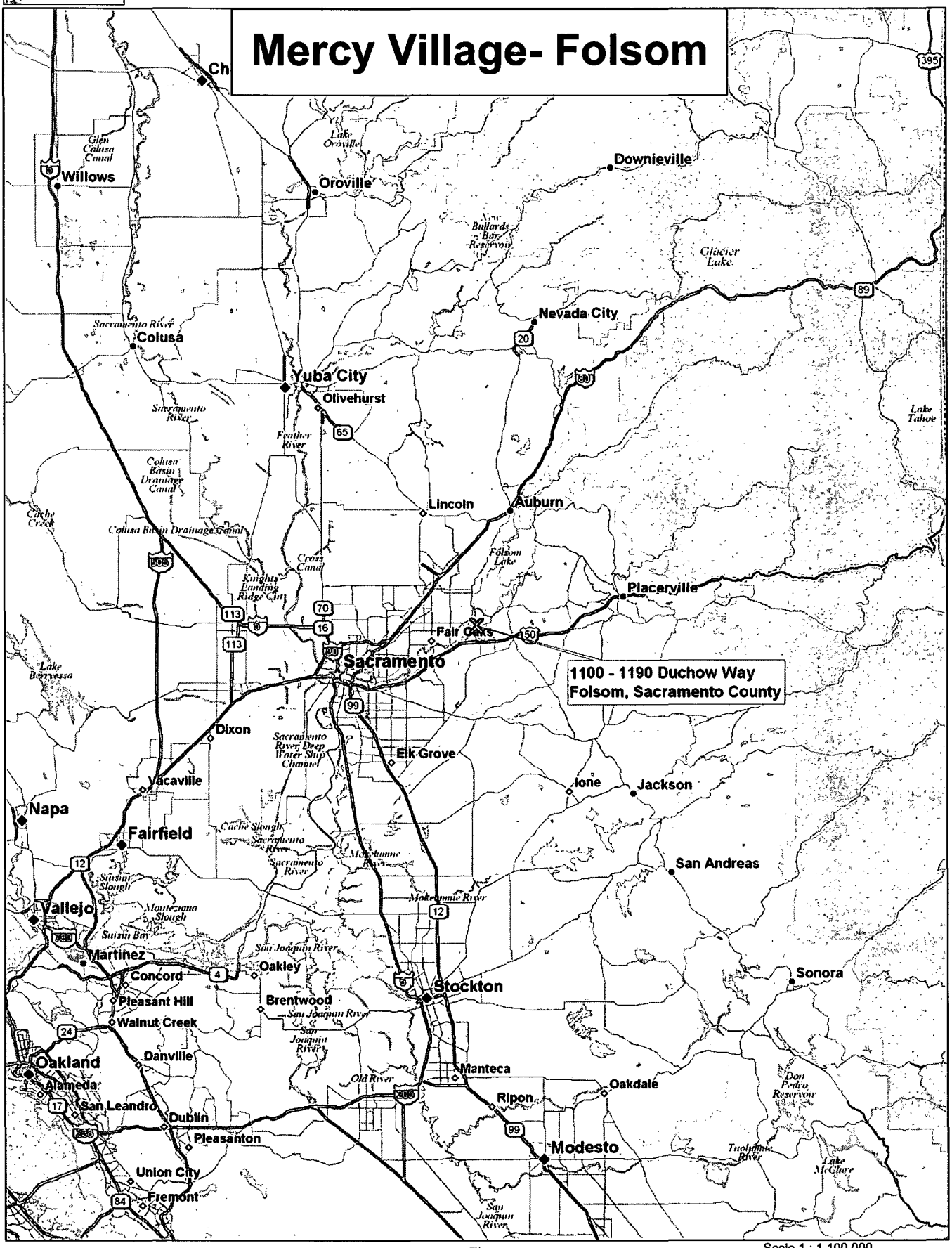
Mercy Village- Folsom



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Scale 1 : 1,100,000

1" = 17.36 mi

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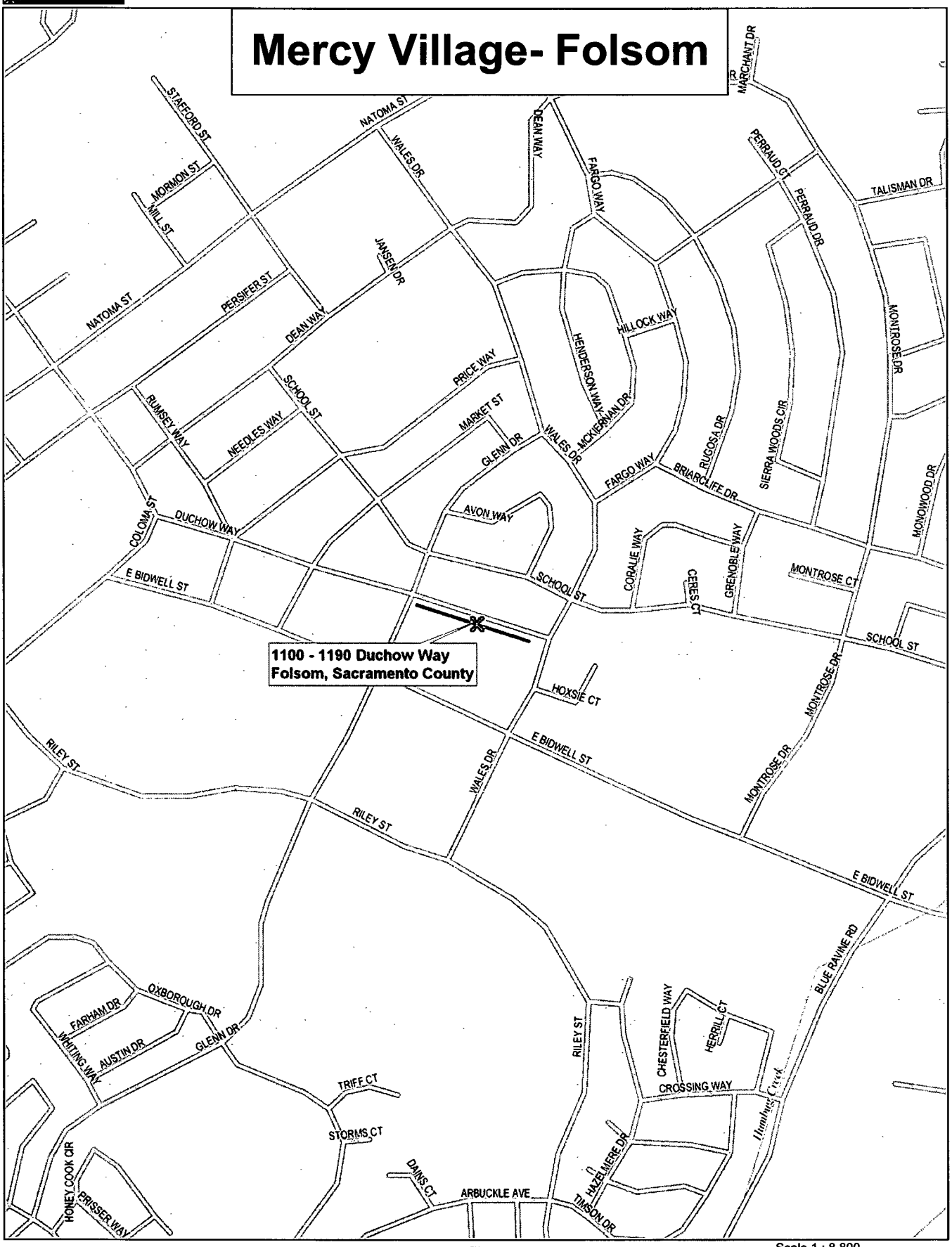
Street Atlas USA® 2006 Plus

Mercy Village- Folsom



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Scale 1 : 8,800

1" = 733.3 ft Data Zoom 14-5

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RESOLUTION 07-18

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Mercy Housing V, L.P., a California 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 the City of Folsom, County of Sacramento, California, to be known as Mercy Village Folsom 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 June 4, 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
97-026-N	Mercy Village Folsom Apts. Folsom, Sacramento County, California	Loan-to-Lender 2nd Mortgage: $3,705,000 Loan-to-Lender HAT Mortgage: $1,000,000 Permanent 2nd HAT Mortgage: $1,000,000

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 07-18 adopted at a duly constituted meeting of the Board of the Agency held on July 5, 2007 at Sacramento, California.

ATTEST: _____
Secretary

Bay Area Housing Plan

Terms for CalHFA Warehouse Line
Date: 6-11-07

Purpose:

To allow CalHFA to purchase Loans relating to up to 30 properties after Stabilization and achieve the following overall project goals:

1. Loan Purchase to be approximately 14 to 30 days following Stabilization
2. Hallmark Community Services ("HCS") can close out the acquisition phase of the BAHP while remaining below the Bank of America cap of $60 million (10% cost-overrun cushion results in a cap of $54 million in maximum loan amounts)
3. CalHFA can accumulate enough loans to create an attractive bond offering, resulting in better permanent rates for the Borrowers, without a bottleneck on the Bank of America line.

All capitalized terms not otherwise defined herein have the meanings assigned to them in the BAHP Loan Documents.

Structure:

The common goal is to achieve the above with as few changes to the BAHP Loan Documents as possible. From the HCS and Regional Center perspective, the salient difference between the proposed structure and the original structure is that interest-only payments will be made to CalHFA rather than to Bank of America while accumulating sufficient loans for an attractive Bond Issuance.

Borrowers: Non-Profit Organization, Limited Liability Corporations' (Casa Milagro, LLC; A Home for Life, LLC; Inclusive Communities East Bay, LLC) (collectively, the "NPO LLC's")

Availability Requested: Up to $60 million

Security: Identical to security provided for in the BAHP Loan Documents at Loan Purchase.

Take-Out Source: Bond proceeds

Requested Availability: June 15, 2007

Term: From June 15, 2007 until February 28, 2008, which is the expiration of the of the Revolving Credit Agreement by and between CalHFA and Bank of America, N.A. dated as of March 7, 2003, as amended by that certain First Amendment to Revolving Credit Agreement dated as of February 25, 2005 (as amended, the "RCA/Warehouse Line"), with the possibility of extension at CalHFA's discretion upon renewal of the RCA/Warehouse Line.

Pricing of Bonds Event: Approximately Mid-November, 2007

Bond Issuance: Approximately Mid-December, 2007

Direct Payment: Monthly interest only payments between Loan Purchase and Bond Issuance to be made directly from the Regional Centers to CalHFA as provided under the Lease.

Interest Rate:

CalHFA is offering the BAHP Regional Centers/LLC NPO's a RCA/Warehouse Line Variable Rate of Monthly LIBOR plus 180 basis points (see Modification of note below). This rate is 150 basis points above CalHFA's cost of funds of LIBOR plus 30 basis points, pursuant to the terms of the RCA/Warehouse Line. All fees charged by Bank of America to CalHFA under the RCA/Warehouse Line are included in the Monthly LIBOR plus 180 basis point RCA/Warehouse Line Variable Rate.

By way of comparison, the RCA/Warehouse Line Variable Rate is 50 basis points lower than the Variable Rate as currently described in the Permanent Financing Agreement (as amended the PFA), which rate is set at monthly LIBOR plus 230 basis points. All other terms are the same. The Bank of America rate at Stabilization matches the PFA Variable Rate of LIBOR plus 230 basis points but resets daily instead of monthly.

Amend the Definition of Variable Rate in the PFA to include the RCA/Warehouse Line Variable Rate: The definition of Variable Rate in the PFA will be amended to allow for a Warehouse Line variable rate (monthly LIBOR plus 180 basis points) for the period of time between CalHFA Loan Purchase using its warehouse line and the last day of the month of Bond Issuance. The RCA/Warehouse Line variable rate will reset monthly on the first day of each calendar month.

Modification Agreement – to be executed after Bond Pricing and approximately 15 days prior to Bond Issuance. The Modification Agreement will change the RCA/Warehouse Line variable interest rate to the Applicable Fixed Rate is defined in the PFA and set the Amortization Date The form of the Modification Agreement has already been agreed to by the parties and is an attachment to the PFA and the Construction Loan Agreement. The Applicable Fixed Rate is CalHFA's Cost of Funds as determined through the Bond Pricing, plus 150 basis points. The Amortization date will be the first day of the month following Bond Issuance. The Applicable Fixed Rate will be effective on the Amortization Date.

Lease Amendment at Loan Purchase: The Long-Term Residency Lease Agreement (the" Lease") will be amended (the "Lease Amendment") at Loan Purchase to revise the Rent, and Monthly Base Rent charged under the Lease, and, if necessary, the Replacement Reserve amount. The Rent and Monthly Base Rent will be changed to reflect interest only payments on the outstanding principal balance of the loan at the RCA/Warehouse Line variable rate. A fully executed Lease Amendment will be required for each property prior to each Loan Purchase Closing. The Lease Amendment will also provide for notice by CalHFA after Bond Pricing and approximately 15 days prior to Bond Issuance of the new Rent and Monthly Base Rent based on the fully amortizing Applicable Fixed Rate.

Alternatively there will be a **2nd Lease Amendment** that will amend the Rent and the Monthly Base Rent in the Lease to reflect the Applicable Fixed Rate and fully amortizing payments, to be executed after Bond Pricing and approximately 15 days prior to Bond Issuance.

Loan Fees: No additional fees beyond 1% CalHFA Board Commitment fee per the original BAHP Loan Documents.

Costs: HCS to pay all other costs and expenses incurred by CalHFA except those costs and expenses associated with the Bond Issuance.

Key Conditions for Closing: Each property to achieve Stabilization per the terms of the BAHP Loan Purchase Agreement prior to CalHFA Loan Purchase. The property will be transferred to the NPO LLC's at CalHFA Loan Purchase. The NPO LLC's will assume all of the obligations of the Hallmark Community Services under the loan documents.

TEFRA: CalHFA has taken official action required for tax-exempt bond inducement at Bank Acquisition closing for all applicable properties. CalHFA has conducted or will conduct TEFRA hearings prior to CalHFA Loan Purchase and transfer to the NPO's for all applicable properties.

Title: CalHFA will require a 101.8 endorsement in addition to title requirements in the Preliminary Approval Letter/4.2 Estoppel if the statutory lien period has not passed at Loan Purchase Closing.

Anticipated Changes required to the previously agreed upon BAHP Documents:

1. First Amendment to the PFA with the 3 NPO LLC's to allow a) bankruptcy remoteness required by bond rating agencies, b) creation of a limited power of attorney to allow the Agency to sign any Modification Agreement for the NPO's and the Consent to the Modification Agreement for the Regional Centers and c) modification of the definition of Variable Rate to include the RCA/Warehouse Line variable rate (discussed above). **[CalHFA Draft in circulation – further modification required to change the variable rate definition].**

2. **First Amendment to Loan Assumption Agreement between HCS and the applicable NPO LLC amending Exhibit A (Schedule of Assumed Loans) to reflect outstanding balance as of time of execution of Loan Assumption Agreement).**

3. Form of Lease Amendment to allow for changes in the Rent, including, without limitation, the change in Monthly Base Rent, and changes to the Replacement Reserve. The Lease Amendment will also provide CalHFA a limited power of attorney from the Service Providers for the Agency to adjust the Rent, including without limitation, the Monthly Base Rent, and changes in the Replacement Reserve, and to reflect the Applicable Fixed Rate, and the Amortization Date in a Second Lease Amendment after the Bond Issuance. **[CalHFA to provide Draft Lease Amendment]. Form of Second Lease Amendment if deemed necessary by CalHFA. [CalHFA to provide Draft 2nd Lease Amendment]/**

4. Form of Modification Agreement modifying the note to reflect the Applicable Fixed Rate after Bond Issuance, and setting the Amortization Date and the debt service payments due after the Amortization Date. **[CalHFA to provide Form of Modification Agreement- Administrative Agent to approve if any change to the form attached to the LPA/PFA].**

Senior Loan Committee Final Project Approvals $4 Million and Below FYE 2006

Project Name/City/County	Project Type	Developer/Project Manager	CalHFA Financing	Other Financing Sources	Date Approved
Alexis Apartments San Francisco, San Francisco County	Family	Barbara Sanders & Associates Barbara Sanders	$ 250,000.00- Predevelopment	N/A	8/21/2006
Aspen Tenderloin Apartments San Francisco, San Francisco County	Elderly	Tenderloin Neighborhood Development Coproration Jerry Jai	$2,400,000- Acquisition	$5,564,831- San Francisco HRA	12/18/2006
Fitch Mountain Terrace II Healdsburg, Sonoma County	Elderly	Burbank Housing Development John Lowry	$ 470,000.00- 1st $ 90,000 00- 2nd	N/A	12/22/2006
Las Flores Los Angeles, Los Angeles County	Special Needs	East Los Angeles Community Corporation Alejandro Martinez	$ 300,000.00- Loan Increase	N/A	1/17/2007
HFL Vanowen Apartments	Special Needs	Homes For Life Foundation Carol Liess	$1,339640.00- Construction	$2,679,280.00- HCD/MHP $2,997,900.00- HUD 811 $1,225,000.00- Los Angeles Housing Dept $ 240,000.00- AHP	3/26/2007
Alexis Apartments San Francisco, San Francisco County	Family	Barbara Sanders & Associates Barbara Sanders	$1,180,000.00- 1st $1,115,000.00- IRP Loan	N/A	6/4/2007
6 Projects			**$7,144,640.00**	**$12,707,011.00**	

Bay Area Housing Plan Summary on Page 2

Bay Area Housing Plan

	Project Address	Amount	Approval Date
1	227 Prague, San Mateo	$1,689,000.00	7/3/2006
2	5508 Jasmine, Castro Valley	$1,694,000.00	7/17/2006
3	506 & 508 Northlake, San Jose	$1,837,000.00	7/17/2006
4	625 & 627 Vasona, Los Gatos	$1,806,000.00	7/26/2006
5	629 & 631 Vasona, Los Gatos	$1,819,000.00	7/26/2006
6	637 & 639 Vasona, Los Gatos	$1,803,000.00	7/26/2006
7	1720 Pierce, San Mateo	$1,660,000.00	8/7/2006
8	2508 Regent, Livermore	$1,756,000.00	9/15/2006
9	4865 Wellington Park, San Jose	$1,585,000.00	9/28/2006
10	21763 Shadysprings, Castro Valley	$1,502,000.00	10/3/2006
11	633 Vanessa, San Mateo	$1,692,000.00	10/4/2006
12	32744 Olympiad, Union City	$1,713,000.00	10/18/2006
13	2334 Oak Flat, San Jose	$1,697,000.00	10/18/2006
14	14239 Mulberry, Los Gatos	$2,086,000.00	10/18/2006
15	1446 Flora, San Jose	$2,071,000.00	10/30/2006
16	1112 Sunnyside, South San Francisco	$1,646,000.00	11/2/2006
17	740 Palm, South San Francisco	$1,720,000.00	11/6/2006
18	680 Edna, San Mateo	$1,914,000.00	11/8/2006
19	1169 Sand Beach, Alameda	$1,576,000.00	11/14/2006
20	24615 Patricia, Hayward	$1,534,000.00	11/17/2006
21	32724 Fairfield, Union City	$1,475,950.00	11/29/2006
22	1908 Otis Drive, Alameda	$1,446,000.00	3/30/2007
23	2380 Medina, San Bruno	$1,792,000.00	3/27/2007
24	3508 Martin, San Mateo	$1,450,000.00	4/10/2007
25	862 Calero, San Jose	$1,935,000.00	4/17/2007
26	5242 Bristol, Newark	$1,393,000.00	4/17/2007
27	275 W. Dunne, Morgan Hill	$1,490,000.00	4/17/2007
28	1447 Stonehedge, Pleasant Hill	$1,423,000.00	5/7/2007
29	2917 Penitencia Creek, San Jose	$1,490,000.00	5/7/2007
30	10506 N. Foothill, Cupertino	$1,436,000.00	5/15/2007
31	10516 N. Foothill, Cupertino	$1,432,000.00	5/15/2007
32	10526 N. Foothill, Cupertino	$1,436,000.00	5/15/2007
33	10536 N. Foothill, Cupertino	$1,417,000.00	5/15/2007

33 Projects **$54,415,950.00**

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State of California

MEMORANDUM

To: Board of Directors **Date:** July 05, 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 blue underline 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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Proposed Amendment Text

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) (all classes and all levels)	3
Associate Business Management Analyst (Business Services) (all classes and all levels)	3
Telecommunications Systems Analyst (Business Services) (all classes and all levels)	3
Business Services Officer (Business Services) (all classes and all levels)	3
Staff Services Analyst (Business Services) (all classes and all levels)	3
Information Technology	
Chief Information Officer	2, 3
~~Staff Information Systems Analyst (Specialist) (Systems Administration)~~	~~3~~

Senior Programmer Analyst (Supervisor) 3
Senior Information Systems Analyst (Supervisor) 3
Staff Information Systems Analyst (Specialist) (Systems Administration) 3

Marketing
Director of Marketing (Staff Services Manager III) 1, 2, 3

Legal
General Counsel 1, 2, 3
Assistant Chief Counsel 1, 2, 3
Staff Counsel IV 1, 2, 3
Staff Counsel III 1, 2, 3
Staff Counsel 1, 2, 3
Information Security Officer 2, 3

Financing
Director of Financing 1, 2, 3
Risk Manager - Financing 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
Deputy Director of Homeownership Programs 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

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.

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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 July 05, 2007, at Sacramento, California.

ATTEST: _____
Secretary

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