CalHFA BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

Thursday, August 9, 2007

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

1 p.m.

1. Roll Call.

2. Approval of the minutes of the July 5, 2007 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action relative to final loan commitment to the Corporation for Supportive Housing. (Edwin Gipson)
Resolution 07-19.....**161**

5. Update on MHSA Housing Program. (Terri Parker) **167**

6. Discussion and possible action to repeal Resolution 06-16 and dissolve the Compensation Committee. (John Courson)
Resolution 07-20.....**185**

7. Discussion, recommendation and possible action to modify the salary caps for the positions of Director of Multifamily Programs and Director of Homeownership Programs. (Terri Parker)
Resolution 07-21.....**193**

8. Closed session to consider the appointment of a Director of Multifamily Programs. (Government Code section 11126(a)(1))

9. Discussion, recommendation and possible action to appoint a Director of Multifamily Programs, and to set the compensation for such position. (Terri Parker)
Resolution 07-22.....**201**

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BdMtg:08-09-07

10. Report of the Chairman of the Audit Committee regarding the review by outside counsel of issues relating to contracting authority and letters to the Board, and discussion and possible action by Board regarding the review. (Jack Shine)

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

12. Reports **203**

13. Discussion of other Board matters.

14. 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

BOARD OF DIRECTORS

PUBLIC MEETING

Hyatt Regency Sacramento
1209 L Street
Sacramento, California

Thursday, July 5, 2007
1:04 p.m. to 4:30 p.m.

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

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A P P E A R A N C E S

Board of Directors Present

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

PETER N. CAREY
President/CEO
Self-Help Enterprises

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

JOHN FILLMORE
for Cynthia Bryant, Director
Office of Planning and Research
State of California

CAROL GALANTE
President
BRIDGE Housing Corporation

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

CARLA I. JAVITS
President,REDF
(*formerly* Roberts Enterprise Development Fund)

THERESA ANN PARKER
Executive Director
California Housing Finance Agency
State of California

A P P E A R A N C E S

Board of Directors Present
Continued

JACK SHINE
Chairman
American Beauty Development Co.

PATRICIA WYNNE
for State Treasurer Bill Lockyer
State of California

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Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

RICHARD L. DEWEY
Asset Management

BRUCE D. GILBERTSON
Director of Financing

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

THOMAS C. HUGHES
General Counsel

JIM LISKA
Loan Officer
Asset Management

CHARLES K. McMANUS
Director
Mortgage Insurance Services

A P P E A R A N C E S

Participating CalHFA Staff:
Continued

JOJO OJIMA
Office of the General Counsel

L. STEVEN SPEARS
Chief Deputy Director

KATHY WEREMIUK
Housing Finance Officer
Multifamily Programs

LAURA WHITTALL-SCHERFEE
Housing Finance Chief – Sacramento
Multifamily Programs

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OTHER SPEAKERS

JAMES P. NIETHAMMER
Principal
CresaPartners

GERALD A. PORTER
Chairman
CresaPartners

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BE IT REMEMBERED that on Thursday, July 5, 2007, commencing at the hour of 1:04 a.m., at the Hyatt Regency Sacramento, 1209 L Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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(The following proceedings commenced with Ms. Javits and Mr. Fillmore absent from the meeting room.)

CHAIR COURSON: I will call the board meeting to order.

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Item 1. Roll Call

CHAIR COURSON: And the first order of business is to call the roll.

MS. OJIMA: Thank you, Mr. Chair.

Mr. Davi for Mr. Bonner?

MR. DAVI: Here.

MS. OJIMA: Mr. Carey?

MR. CAREY: Here.

MS. OJIMA: Mr. Czuker?

(No audible response)

MS. OJIMA: Ms. Galante?

MS. GALANTE: Here.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Here.

MS. OJIMA: Ms. Javits?

(No audible response)

MS. OJIMA: Ms. Wynne for Mr. Lockyer?

MS. WYNNE: Here.

MS. OJIMA: Mr. Morris?

(No audible response)

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Ms. Bryant?

(No audible response)

MS. OJIMA: Mr. Genest?

(No audible response)

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Here.

MS. OJIMA: We have a quorum.

CHAIR COURSON: Thank you.

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Item 2. Approval of Minutes of May 10, 2007, Meeting

CHAIR COURSON: And the next order of business is the approval of the minutes of our last board meeting, which was May 10th, which is in your binder.

Is there a motion to approve the minutes?

MS. JACOBS: Move approval.

CHAIR COURSON: Ms. Jacobs moves.

Is there a second?

MR. CAREY: Second.

CHAIR COURSON: Mr. Carey seconds.

Any discussion?

(No audible response)

CHAIR COURSON: Call the roll.

(Ms. Javits entered the meeting room.)

MS. OJIMA: Thank you.

Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Ms. Wynne?

MS. WYNNE: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Abstain.

MS. OJIMA: Thank you.

Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: The minutes have been approved.

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Item 2. Chairman/Executive Director Comments

CHAIR COURSON: And let me introduce our newest Board member.

Carla, we're glad to have you.

Carla Javits has joined us today.

MS. JAVITS: I'm glad to be here. Sorry I was late.

CHAIR COURSON: And we will also show for the record that you are present.

And we really appreciate your service and willingness to serve on the Board. We think you will find it interesting. Your expertise in some of the areas -- and those of you who aren't familiar, Terri probably will talk a little about Carla's background -- it is dynamic.

And we're pleased that eventually we got you approved and here on our Board, and we look forward to working with you over the next several years.

MS. JAVITS: Thank you.

MS. PARKER: Did you want to address Patricia Wynne?

CHAIR COURSON: And I should also say that Patricia Wynne is here, who is the Deputy Treasurer of

the State of California. And she is filling in, obviously, for the Treasurer and also for our normal representative, Bill Pavao, who told us long ago that this was going to be a date that he was not going to be able to make on his calendar.

So, Patricia, thank you for joining us also today.

MS. WYNNE: Thank you.

CHAIR COURSON: And in the interest of time, I know that I want to thank the Board members who made the effort and were able to come today. It's a tough day, right after the Fourth of July on this week. But I appreciate you all making the effort to be here. And in the interest of that, with an afternoon meeting and people with planes to catch and to remove themselves back to other parts of California, we're going to move through thoughtfully and appropriately; but in the spirit of that, I won't make any further comments other than to remind you, if you need parking passes, I have parking passes for the garage. They're not free, I might add, you just get a slight credit.

And I'll turn it over to the executive director.

MS. PARKER: Thank you, Mr. Chairman.

I will try to make my comments brief. However,

it has been a very busy past two months, and there is a lot of information to be sharing with the Board. And, of course, all of it is good news, and I want to at least make you aware of some of the activities that the staff has been involved in today.

We have a fairly large gathering today. We have invited all of the staff that want to come and see how you all operate from a board setting here, and particularly many of the staff of the Multifamily are here to listen to our discussion later on.

Three or four things to talk about.

First of all, I want to report to you that about three weeks ago Steve Spears and Bruce and I went to New York for our annual meetings with the rating agencies. We spent three days in meetings with pretty much all of our major bankers, and also S & P and Moody's that do the ratings for our primary-housing fund.

You will get copies, if it's not here, we just had our rating reaffirmed by S & P for our mortgage insurance; and I want to make sure that you all see that. But we did not meet with the side of the rating agencies to do the Mortgage Insurance side at this particular trip. It was really looking at the Agency as the mother ship in totality.

The meetings were very, very good, very

productive, they always asked a lot of good questions. We take our swap advisor with us because we probably are the largest municipal financier of federal-rate debt, either variable or fixed swap to fixed rates as a way that we can essentially get as much affordability of our bonds.

(Mr. Fillmore entered the hearing room.)

MS. PARKER: You must be John.

MR. FILLMORE: I am.

CHAIR COURSON: John Fillmore; correct?

MR. FILLMORE: Correct.

MS. PARKER: Representing the Office of Planning and Research.

So we had our meeting with the rating agencies. We talked about, again, what our business plan is. That's what we usually do. And primarily, we talked with them about two key things: One of them, what we were going to be doing on a go-forward basis with our Homeownership program, and particularly the relationship that we were about ready to sign, which we have -- and I'll explain in a minute -- with Fannie Mae, to do a program with them where we would either do whole loans or an MBS format, and to the extent what that means from a rating-agency analysis of us. So they think that's an outstanding thing because it essentially lays off risk

that we would normally have on our rating to Fannie Mae.

We talked about the Bay Area Housing Plan, because that is something that they had been concerned about the risks associated with that, and, you know, spent basically about 90 minutes with each of them. And I don't expect anything other than to have our ratings reaffirmed by them.

As I mentioned, we also, within the last couple of weeks, based on work that's been done by the staff for the last six months, finalized the participating agreement that we were going to do with Fannie Mae to join 20 other housing finance agencies in the partnership that I believe I told you that the director of Mass Housing and myself negotiated with Fannie Mae to use the housing finance agencies as the preferred platform for delivery to them of loans that that they consider goal-rich to meet their HUD guidelines.

I signed the agreement a week ago on Monday. We're in the process of getting the new indenture in place. We're about ready to sign a document to have a master servicer associated with that and hope to be starting loans through a new indenture that would be utilizing that system by sometime next month.

In our discussions when we were in New York, part of the thing that we were the very most concerned

about from the staff standpoint that we want to alert you to, is that the demand for our single-family loans is far outstripping what our resource availability is of bond cap. And we think it's because, frankly, the flight to quality is such that at sub-prime market, those loans aren't available, and the fact that even though we have been increasing our rates because of the insufficient amount of cap, we are still seeing more business than we can handle. And I think it's because we have a loan product that's 100 percent loan with downpayment assistance.

A tightening of the credit in the banking industry is thus that there are very few banks that will do 100 percent loan, very few banks that have a 40-year product.

So we were back in New York, and one of the things we talked about with our bankers are ways that we might look at getting increased capacity to do those loans and essentially to handle that business. So we'll probably be talking to you more about it. But we want to try to focus again on serving our first-time home buyer, doing this in an environment that is not competing with the marketplace but essentially going where the marketplace has retrenched from.

And last, but not least, I want to report on

where we are on the implementation on the Multifamily side of our initiative for the Governor's Homelessness Initiative with our sister agency, the Department of Mental Health. We are in the final stages of all of the documentation for application of interagency agreement between ourselves and DMH and the approval process from the standpoint of review process with the counties, and, clearly, this is their money, in that sense.

We have another conference call next week and the week after that to finalize things, but we are expecting that we will be able to be on the street at the end of July. We also have a meeting with our colleagues at HCD to talk about -- there's three or four issues that we've got to finalize, but we figure that we're going to be ready to go. So that is between now and when we meet again, that program should be on the street.

The last comment -- and I'll talk a little bit more about this when we talk about Multifamily, but I wanted to give you an update on staffing with our new recruiter. He has been giving us a number of names of candidates for Homeownership. We have a candidate coming out next week to talk with us, who has expressed a great deal of interest and we think looks like a very good candidate. There has been less so on the Multifamily, but I'm going to chat with you a little bit more about

that when we get to that point in time. But I just wanted to give you a status of where I am on those activities.

And with that, Mr. Chairman, I think that concludes my report.

CHAIR COURSON: Let me just -- one thing that Terri said that I'll just make a couple of comments.

Many of you know that obviously Downpayment Assistance has been one of our big programs. And you're probably also aware, and I may have mentioned at our last board meeting that the IRS has put out a proposed regulation that would make it difficult for those entities that are not-for-profit entities that are doing downpayment assistance. And in addition to that, HUD, just within the last thirty days, has released a proposed rule that would eliminate downpayment assistance from their program. So the push that we're going to see, in this demand that Terri's talking about, will get even greater based on our ability to use downpayment assistance or higher loan-to-value as they move out. So it's truly going to put some pressure on.

And I know in Washington there are a couple of things roaming around that could ultimately end up in some additional bond cap down the road. But it certainly is down the road. And meanwhile, the pressure is going

to continue to mount on us to find other ways of financing other than issuing the tax-exempt bonds.

MS. PARKER: Mr. Chairman, one other thing. Again, I don't want to take too much time, but I do want to talk a little bit about this.

I had a meeting in Washington three weeks ago with Dan Mudd, the CEO of Fannie, to reiterate and talk about the relationship of Fannie using the housing finance agencies again to meet their HUD goals. And Fannie is going to be coming out with some price changing for its other users of their My Community Mortgage Program in August. And what they have committed to the HFAs is that they will continue to keep the pricing that they are going to be charging us as a guarantee fee through at least the first contract in the renewal process that comes next spring. And I think we had all talked about the fee that Fannie will charge us, to deliver for us, to charge an MBS being below ten basis points. That, for everybody else, is going to -- whatever they had before is going to increase by another 37 and a half basis points. So whether it be local housing finance agencies or other issuers, compared to the HFA, their cost is going to go that much more. So from the standpoint of where borrowers are going to go, we hopefully should be able to be, given the

affordability, a better loan if we could just make sure that we have enough production.

But all of that benefit we are passing on to our consumers, either by a hedge against rising interest rates or even perhaps if we could lower interest rates.

CHAIR COURSON: Any questions of the executive director?

(No audible response)

Item 4. Resolution 07-18

Mercy Village Folsom Apartments, Sacramento

CHAIR COURSON: All right, seeing none, let's move into our project today, which is the Mercy Village Folsom Apartments.

And, Laura, are you going to do the intro?

MS. WHITTALL-SCHERFEE: Actually, no. Margaret Alvarez is the director of Asset Management. And this is a workout, so she's going to take it.

CHAIR COURSON: Okay, Margaret, thank you.

MS. ALVAREZ: Thank you.

Today we're here to talk about Mercy Village, which is in Folsom, California. This is a workout, as Laura said, of a special-needs loan that was first done in 1999. And why it is an important and a very good workout, as far as I'm concerned, is that all of the parties have come to the table with financial

contributions, which is something that you always hope for when there's a workout. So the City of Folsom, the sponsor, Mercy Housing, the tax-credit investor, and now us, are all at the table, putting in something to make this a better project.

Social services for the special-needs project are provided by external funding sources and not from the loan.

The building is 81 units, with 30 units set aside for preference of special needs, particularly in the beginning, it was for families of people incarcerated at Folsom Prison.

It's ten buildings, about eight units each, all built in the 1950s, with various owners, which added to the complexity of the original rehab, and now with the renovation that we're asking for additional money for.

When you have ten owners, ten buildings, ten different types of buildings, it's very complicated. And we found that to be true here.

Virtually all of the problems are due to water intrusion. There have been several minor attempts to fix, but not successfully. So when Jim presents here in a minute, you'll see that roofing, siding, insulation, windows, and drainage are the big sources of the use of money.

The building has a mold problem, and several of the units were taken off-line, which didn't help the financial situation of the building. And there's approximately 60 units that require some level of repair.

Again, this is a workout. And I would again stress that everybody has chipped in to make it right.

And I will now turn over the mike to Richard Dewey, who is the asset manager for that property, and has been involved with it from the beginning. And then Jim Liska will present the loan.

Richard?

MR. DEWEY: Welcome, folks.

I'm addressing the special-needs component which is an integral part of the Mercy Village Folsom financing initially. It has a subsidized interest rate, which was subsidized by the Agency. That interest rate is 3.5 percent. And to obtain that, the sponsor agreed to provide 100 percent of the units at rents comparable for people with incomes of 50 percent of median or lower. As well as the benefit of the interest rate, the sponsor was required to provide special-needs programs for the residents for a period of ten years.

As Margaret indicated, 30 of the 81 units have a preference given to special-needs tenants, and the initial ten-year period is going to lapse within two

years.

So the sponsor is also committing, along with their monetary investment, they are committed to extending this special-needs program at this site for another ten years.

And with that, I'll turn this over to Jim Liska, who will discuss the financing package.

MR. LISKA: Thank you.

Let's just go through a couple slides.

Again, this project is located in the City of Folsom. And the highlighted area, it just shows where it is in relationship to its location in the city and its surrounding with single-family, some commercial, schools, what have you. It's all reasonably in close proximity to services.

Next slide. Here's a close-up version. Again, these are ten buildings that were assembled in order to provide the project back when we first took it under consideration back in 1999.

And then the last slide just shows where we are in relationship to rents as far as market.

100 percent of the units are at 50 percent, and they remain at 50 percent as long as we have our special-needs interest rate at three and a half percent, which Richard indicated we currently have it out for an

initial ten years and then we're going to be extending it through this second loan.

As Margaret indicated, you know, it's taken about a year to get to this point. We started back last summer. We did an extensive walk-through of the project.

This is a second mortgage. Again, the first mortgage stays in place, uninterrupted. And this is a second mortgage. It's the first time we're presenting something like this, and it's the first time we're getting tax credits on a second mortgage and it will only be for the rehab.

But we worked closely with the NEF, who was the original tax-credit investor, and who was the tax-credit investor on this second phase, National Equity Fund. We worked with the City of Folsom, the regional agency, as far as an infusion of additional money on their part. And then we're also making a $1 million HAT equity loan.

And even though, in the physical needs, it shows the data of last year, we've had several meetings as far as meeting at the site. And I think we met as recently as maybe March of this year, and then we met in April with the NEF and Mercy when they were here in town for the Housing California meeting.

So it has been ongoing. We do have current

costs. We feel very comfortable where we are as far as what is necessary for the scope of the rehab, as well as current costs.

But the loan to lender -- and this may be a misnomer -- but it's going to be made to the City of Folsom, it's going to be a $3,705,000 loan. The interest rate is 5.5 percent. It's fixed. We passed this through bond counsel, as well as our Finance Department, that we meet the requirements so we don't have any arbitrage problems. It will be tax-exempt funds.

This will be for a period of 36 months, in which we're only paying interest on that mortgage at a fixed 5.5 percent interest rate.

Our developer loan, our HAT mortgage will be for $1 million at 3 percent. It will be for the remaining term of 22 and a half years, which is coterminous with our firm mortgage.

Originally our first mortgage was $2,350,000; and currently, that mortgage has been paid down to $1,974,000.

When we flip this over into permanent financing, we will have a first mortgage in first position, and our HAT mortgage of $1 million will go into a second-mortgage position, and all the soft financing will remain at the end.

The City of Folsom will be administering the rehabilitation loan. They're making certain requirements of Mercy Housing, the developer, as far as being held harmless. And we will also attach ourselves to any conditions that the City is requiring in addition so we would be in the same position with them for special conditions.

As indicated, NEF, they are putting in 100,000 dollars' worth of tax credits in the beginning. They're also making a contribution of $150,000 over and above the tax credits that are for equity that's eligible for this second piece.

The tax credits that we are looking at are about two and a half million dollars. Even though we couldn't squeeze more money out of NEF in the beginning for a contribution at the second phase, they are paying a dollar and four cents per dollar, which is a good price.

The developer is putting in additional equity. And the City of Folsom is putting in $1,215,000. That's part of the -- they're going to be putting it in in three phases. They're going to pay an initial phase of $500,000 on January 1st, 2008, into the project; $500,000 on August 1st of 2008; and $215,000 on February 15th, 2009. So we're basically front-ending the City of Folsom

that money initially in the equity, in the rehabilitation loan of $3,705,000.

And how will that be taken out over three years? $1,215,000 is coming from the City of Folsom; and then you have another $2.5 million dollars that's being paid through tax-credit equity, additional source for the scope of the rehab. So the 2,500,000 and the 1,215,000 approximates our construction loan, and that's how it will be taken out.

And then we will have a residual, in addition to our first mortgage, which is untouched, we will have this HAT mortgage. And that will be paid out of residual receipts. We'll have first rights as far as any cash flow, if there's enough money to make a payment.

As Margaret indicated and Richard indicated, we're doing an additional scope of work of $40,770 per unit, which is hard-cost rehab. And, again, walking the project, working with NEF on their requirements and what they deemed to be necessary, as well as our physical-needs study, we're looking at the roofing, we're looking at siding, mold, water intrusion, drainage. We will be asking for a mold-remediation certificate by a hygienist, so we make sure we have a project that is going to be free and clear, so we shouldn't have any problems. And we think this project -- or we know this

project should be in good enough shape now for the ensuing years.

And with that, I'll take any questions.

CHAIR COURSON: Questions on the project?

Yes.

MS. JACOBS: I think you've put together a great financing plan here. It's very creative but not too creative. So I think it's excellent.

I just have a question. There was this major rehabilitation done in 1999.

MR. LISKA: Correct.

MS. JACOBS: So what caused all this decay so quickly?

MR. LISKA: Well, what caused it to decay quickly -- and others can add on -- but, you know, the scope of work that we initially thought we had, and looking at it from various parties, we really didn't find out that there was such a drainage issue, and then we didn't -- the units, as such, they don't breathe properly. And this is something that we have found on several projects, where if the projects aren't allowed to breathe properly and they don't have proper ventilation and what have you, then you get into mold issues.

And then, as in this project here, we've got a serious mold problem, where at least 18 units are vacant,

and it has caused some serious erosion as far as loss of income with the project and deterioration of those units.

The roofing. The roofing could have been done better, more properly, and it wasn't. And we found out that the way the roof was applied over two existing roofs for a third covering, it caused roof sag. So we had to have that removed. And we've just stripped it, and we've done it properly.

The other stuff is just, all right, through ten years of just working on a problem with limited source of income, this is where we find ourselves.

We've taken a very hard approach. If we want to be involved in this with the second mortgage, we worked with Mercy, we worked with National Equity Fund. And National Equity Fund was very demanding upon the scope of work that they also wanted to see, in addition to what our requirements were.

That may not be the best answer you want to hear, but I think that's factual.

MS. JACOBS: Could I follow up?

CHAIR COURSON: Ms. Jacobs.

MS. JACOBS: I'm just a little concerned that none of these drainage issues were noticed in 1999. And I would hope that we're not using the same general contractor.

MR. LISKA: No, we're not. We're using a different contractor. We're using Precision contractor. And they've done work on some of our other projects, both in the portfolio and new construction. And we're very satisfied with their level of work.

And we've had, again, I think, maybe two or three meetings out at the site with the contractor, with the architect, with our asset managers, with asset-management inspectors, myself, and to discuss what's wrong with the project, how we can correct it, how we can correct it economically, and just walking it, and basically going through detailed structure stuff.

MS. JACOBS: Okay, thank you.

MR. LISKA: You're welcome.

CHAIR COURSON: Other questions?

Mr. Davi?

MR. DAVI: Yes, just kind of a follow-up to the same situation. I'm glad we're not using the same contractor and things of that nature. But I am a little concerned that less than ten years ago we put this loan proposal together, and we're already coming back with what I consider to be a major rehabilitation correction for damages that have occurred over basically wear and tear, time, and that type of thing.

I have a question about the management in place

in the last ten years and reserves.

Were we collecting reserves, and were we spending all the reserves on other things, or do we have a backlog of reserves that we're applying toward this new rehab, or have the reserves been exhausted?

MS. ALVAREZ: We have been collecting reserves. And Mercy Housing has put in a lot of their own money to fix these things as we've gone along.

And I think it might be fair to just remind people that this was one of the first acquisition rehab special-need projects the Agency had done. And I think it's fair to say that we've all learned a lot through the years.

We took ten buildings, various owners, all in various stages of upkeep when we got them. And, you know, that's quite different than taking a building owned by one person and trying to make it all right. So some things you fixed one and it sort of made problems in another area with drainage and so forth; but I think it's fair to say there's probably a little bit of learning curve on this all around. And hopefully, we don't see too many of these in the future.

But our record, I think, as an agency, is pretty good as far as failings. We don't bring too many workouts forward. And, you know, nothing is 100 percent.

And so on this one, we all learned a lot, and the building didn't go quite as we hoped. And I think with this, we can turn it around. And it's already on the road to recovery, I would say, because of all the work that Mercy has already put in. And we just hope to continue that today with this loan.

MR. DAVI: Okay, so the reserves have been exhausted trying to fix the damage as it came about; is that the answer?

MR. LISKA: That's the answer. And we're providing a new initial deposit to the replacement reserve.

MR. DAVI: I saw that.

MR. LISKA: And we have increased the annual per-unit replacement reserve. So, yes.

MR. DAVI: I saw that. Okay, good, thank you.

And again, whether it was criticism, it's just I want to learn, too, and I want us to continue to learn. And I don't want to be back here in ten years with some other problems with the same project. So hopefully we're taking care of it this time.

Thank you.

CHAIR COURSON: Okay, Ms. Galante?

MS. GALANTE: I appreciate your answer about this being ten different buildings and ten different

owners. I think it's actually really a helpful perspective to kind of hammer home about why the problems in this type of project as compared to some of the other things we see.

And I guess I was just going to ask, you know, we've talked a lot about the new financing. And I don't know how better to ask this except to say, you know, your degree of confidence in once the rehab work is done, that the first mortgage is in good shape in terms of being serviceable by the income, are we certain that there aren't, you know, other kinds of vacancy issues going on in this marketplace? I mean, I saw the slide about the differential between market rents and the affordable rents. But, you know, we all know that --

MR. LISKA: Yes, we have a -- Mercy has been purposefully keeping some of the units offline obviously because of their mold infestation or else there's some water intrusion. But they do have a waiting list, and we should be at 100 percent occupancy, once these units are brought back online. So it's not really a tenant-oriented or rent-structure issue. We will have -- we do have the tenancy, we do have the waiting list. It's just a matter of now performing, and to start the roofs to get them done, get all the weatherization, the mold correction and everything prior to the winter

season; and then, as we indicated, that we'll be doing some of the interior, early 2008, and we should have this back online, you know, by, I would say, the first quarter of 2008.

But there is not a rent or tenant issue. We do have that population in line.

MS. GALANTE: Thank you.

CHAIR COURSON: Mr. Shine?

MR. SHINE: Am I correct in assuming that the total cost of this whole project that we're financing is about 5,850,000, is that about the right number, page 173, at the bottom?

MR. LISKA: That is correct, sir.

MR. SHINE: That's about $71,000 a unit?

MR. LISKA: $72,229.

MR. SHINE: And the average rent we're getting per unit per month is how much?

MR. LISKA: The average rent per month?

I don't know what the average is across the board.

We're getting $539 for a studio, $582 for a one-bedroom, $692 for a two-bedroom. I don't have an average.

MR. SHINE: So that's a lot more money in income than is required to service and amortize the debt

of $72,000 per unit; right?

MR. LISKA: We are not amortizing the second mortgage.

The current income that you see here is amortizing our first mortgage.

Originally -- again, we have a first mortgage on this that was originally in 1999, $2,350,000. And that's all we're servicing right now.

We can't afford to service the HAT mortgage of which we're making -- which is part of the second. And that's being paid out of residual receipts. And if there's any cash flow left over after paying our first mortgage debt service, after expenses and amortization, and if there's cash flow left, then we would make a payment towards our HAT mortgage.

CHAIR COURSON: Am I correct, if I look at page 174, does that show that the average rent per unit is about $7,800 per year, to answer Mr. Shine's question?

MR. LISKA: Yes.

MR. SHINE: So the loan that we have now on page 171, you have sources and uses of funds and so on and so forth. At the end of the day, doesn't the refinancing and the tax credits and everything else pay down that existing loan, so we can have new financing?

MR. LISKA: No, it does not.

Again, the existing -- I'm sorry.

MR. SHINE: No, go ahead, that's what I was asking.

MR. LISKA: Okay. But I didn't want to interrupt you. I didn't know if you were hesitating.

The existing financing on the first mortgage remains in place. And as you see on your page 171 -- my pages aren't numbered, so I apologize -- but it says, "CalHFA existing first mortgage," and it shows a debt service of $126,631. That's on page 175. And it shows cash available for distribution, Year 1, $28,926.

So you have to -- there may be some latitude, there may be some room. Again, once we get our financial audited statement at the end of each year, if there is surplus cash money left over, we might be able to make a partial payment towards our HAT mortgage.

But right now, again, what we're looking at today, this scenario envisions a second mortgage.

The original financing that was made back in 1999 remains in place, and it remains undisturbed.

MS. GALANTE: I think page 166 probably shows this.

MS. PARKER: Page 174 basically gives the annual operating budget.

MS. GALANTE: Well, 166 shows, though, the

existing total mortgages and the new financing. That's the only reason I was suggesting we look at that page.

MR. LISKA: Yes, all that -- the income on page 174 and on 175, it basically just shows the current cash flow and flow of funds, as far as income received, current expenses from the project, and debt service on the first mortgage. And what this indicates is that we do not have enough cash flow at the end of the day to really amortize our HAT mortgage that we're putting on this.

And this is one of the reasons why we're coming up that the HAT mortgage will be a coterminous mortgage for the remainder of the term at 22 and a half years, and it will be due and payable at that point. But it's paid out of residual receipts, leftover money, after we pay our original first mortgage.

CHAIR COURSON: Thank you.

Other questions?

Ms. Javits?

MS. JAVITS: I just was curious, on 186, it looks like you had 15 years of service funding in place. And it sounds like, from what you said, that they're now committing to 20 years of services. Am I getting -- I'm not sure if I'm getting those numbers right. But I just wanted to ask where the money is coming from to cover the

services, if that's right, for the last five years?

MR. LISKA: Well, page -- okay.

MS. ALVAREZ: The special-needs services aren't paid from the project. I think this was just -- I think this is from --

MR. DEWEY: That was the original loan.

MS. ALVAREZ: This is the original loan. And I think it was just showing what services were being provided and what those costs were. But it's not coming out of Agency money to pay for those services.

MS. JAVITS: But are they making a commitment to a longer duration of services? Essentially, a longer duration of the special-needs clients being met --

MS. ALVAREZ: Yes, they are.

MS. JAVITS: -- as a result of this loan?

So I'm just asking, did they tell you where the money is going to come from to cover these services?

MR. DEWEY: They're not taking any developer fee on this. Any fees they would normally earn would be committed to the special-needs programs.

MS. GALANTE: People have already plowed that back in.

MS. JAVITS: Thank you.

CHAIR COURSON: Other questions on the project?

Seeing none, there is a resolution on page 211.

Is there a motion?

MS. JACOBS: Move approval of the resolution.

CHAIR COURSON: Approval moved by Ms. Jacobs.

MR. DAVI: Second.

CHAIR COURSON: Second by Mr. Davi.

Is there any further discussion or comments from the Board?

(No audible response)

CHAIR COURSON: Are there any comments from the public?

(No audible response)

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

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits?

MS. JAVITS: Yes.

MS. OJIMA: Ms. Wynne?

MS. WYNNE: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: Resolution 07-18 has been approved.

CHAIR COURSON: Thank you. Thank you, Margaret and Jim. Thanks.

MR. LISKA: Thank you.

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Item 5. Update on Bay Area Housing Financing

CHAIR COURSON: The next item on our agenda will be Edwin and Kathy on our Bay Area Housing Plan.

And I believe that you also at your place have two additional handouts to the materials to the book. And I do appreciate having these in readable form for my aging eyes.

MR. GIPSON: Good afternoon.

Yes, you do have two additional handouts. Basically the schedule of properties and the project schedule, which is the most current time-line and status of each of the projects in the Bay Area Housing Plan.

And inside your binders, you have the term sheet for the warehouse line of credit which we discussed at the last board meeting of how we're going to assist, and moving projects off the Bank of America line of

credit into stabilization, and providing them more room to do more projects under construction.

And that starts on page 213. And then separated is another page, on page 217, which is -- basically, it's the approved projects list.

And I'll let Kathy give us the latest update of where we are.

MS. WEREMIUK: Chairman Courson, Members of the Board, it's a pleasure to be with you again from my bi-monthly update on the Bay Area Housing Plan.

What I'm going to talk a little bit about is project status today and also what we've been working on over the last two months. We aren't asking for any approvals today.

The Agency, since the last board meeting, approved five additional projects, four of which were subsequently acquired by Bank of America, that brings our commitments to 35, totaling approximately $58 million.

The borrower has additionally negotiated a line of credit with Merchants Bank. And they have been identifying additional properties that they cannot put on the Bank of America line because that line is maxed out. It's a $60 million line of credit.

And to date, they have identified 23 properties totaling -- actually, I don't have the total on that.

But they have -- 14 of those have been purchased by them and are sitting on the Merchants Bank line of credit waiting for some room to open up in the Bank of America so that they can start construction.

They have eight other properties under contract.

The Department of Developmental Services, together with the regional centers, has confirmed a reduction in the number of units in the Bay Area Housing Plan, from the 71 we originally contemplated, down to 62. And that has to do with the time that the plan has gone on and some of the residents in Agnews moving to other facilities or into other housing situations.

So 58 those of properties are currently identified. There are only four more properties that Hallmark Community Services needs to put under contract.

We're fairly confident that given that reduction in number, the $105 million in previous credit approvals, credit-authority approvals the Board has made will be sufficient for the completion of the project.

The Agency's efforts in the last two months, other than the five acquisitions I mentioned, we've been beginning to focus on construction approvals. We have a role -- we don't take the construction risk that Bank of America does, but we do approve the architectural package

and construction package.

We've looked at 16 packages -- we have 16 packages in front of us. Nine have already been approved, and are currently in construction with various contractors.

I think we have a few more approvals.

And those architectural packages are beginning to come in to us at the rate of over two per week.

We anticipate that sometime -- we are also starting loan closings under the warehouse line. During the last two months, we've both negotiated the warehouse line, worked that through with our finance department internally, and we're working through some documents, some changes in the credit facilities -- the overriding credit-facility documents we negotiated last year to accommodate the warehouse loan. That line is a $60 million line of credit, where the Agency would purchase the loans, warehouse them, and then go to bond sale.

The interest rate on that is 150 basis points over LIBOR. And we have that line available. We had always anticipated using it, although not using it as the main take-out vehicle for the project.

But what you think will happen a year and a half prior to the time you start the project isn't the

way it always ends up. And at this point, we're all working toward the closing date of Agnews, which is June of 2008. And to be able to accomplish that, our ability to use this warehouse line is especially important.

So we have five properties that we anticipate. We will have five to seven that we will have purchased the loans from Bank of America on, I think by the end of July.

We'll close the document -- do a few document changes -- we're almost through with those -- and start the closing process.

We anticipate by the next time we see you we'll close somewhere between five and 13 loans, and that at the time we get to bond pricing and issuance, we will have closed approximately 30 -- we'll purchase 30 of the loans from Bank of America.

The other thing that we've been working on -- and we've been working with Finance and with Bruce Gilbertson, is on the preparation of the public offering statement and bond indenture. We've been having weekly meetings for, I think, six weeks now, going through the intricate issues that are involved in the credit for this particular project. We're about halfway through the preparation of the -- of Orrick Herrington Sutcliffe is halfway through the preparation of the bond offering

statement.

And if it goes as planned, hopefully that will be coming to you and brought to you by our finance department in September.

And I think that wraps up my presentation.

Things have gone well. There have been a few glitches that we've had to overcome. One of the major ones recently was when we thought through this project, we didn't anticipate the heavy need for construction inspectors, because the inspectors are joint and have to be contracted by both parties. We've been doing some catch-up on that and looking at adding some additional construction inspectors as Hallmark Community Services is now looking at having potentially 30 projects in construction at the same time.

CHAIR COURSON: Questions from the Board for Edwin or Kathy on the Bay Area?

We seem to be picking up some momentum and moving along.

MS. WEREMIUK: Yes, we are.

MR. GIPSON: Yes, we are, definitely.

CHAIR COURSON: Thank you all very much.

MS. WHITTALL-SCHERFEE: I just wanted to take a second and let you know that there's something a little bit out of order in your board package, but we wanted to

cover it right now, oh, since it's showing up at the end of the Bay Area Housing Plan. And that is on page 216 and 217. We included our $4-million-and-under update. We promised to get back to the Board every six months and let you know what is being approved at the Senior Loan Committee level within the Agency. And so this is that time of the year.

There is one typo that I saw this morning. That is on page 216, HFL Vanowen Apartments. The construction loan is missing a comma. It should be $1,339,640.

Essentially, in the last six months, we've had 33 Bay Area Housing units come before Senior Loan Committee for approximately $54,400,000. In addition, we've had six other projects come before Senior Loan Committee and be approved, totaling about $7,100,000, for a total of about $61 million in Senior Loan Committee approvals.

Several of these have been increases that were needed on projects that were previously approved by the Board. But there have been three or four new loans. And HFL Vanowen is an 811 project. So really what we were doing with HFL Vanowen is just agreeing to fund half of what HCD had committed on the MHP program. That is something we are doing on all 811's. And we do not have

a permanent loan or really a construction loan in the normal course of business.

MR. GIPSON: Purely construction.

MS. WHITTALL-SCHERFEE: Yes, it's construction, but it's not our traditional construction.

The project goes to HCD first. And as a result of approaching HCD for the MHP financing, we then get involved and commit half of that, which gets repaid when MHP contributes the second half of the funds.

With that, I'd be happy to answer any questions, or if you'd like additional information, we can certainly provide that to you.

CHAIR COURSON: Questions on any of the projects on page 216?

MS. WHITTALL-SCHERFEE: And 217 is just the Bay Area Housing.

CHAIR COURSON: Okay, it's just the Bay Area?

MS. WHITTALL-SCHERFEE: Yes.

CHAIR COURSON: Laura, thank you very much. We appreciate that update.

MS. WHITTALL-SCHERFEE: Thank you.

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Item 6. Discussion and Possible Action Concerning

Multifamily Loan Production and Competitiveness

CHAIR COURSON: The next item on our agenda, those of you -- and I think all of us -- most of us were here at the last meeting, we had, as we went through our five-year business plan, an active engaged, I would say, robust discussion about Multifamily. It centered around looking at some numbers and some projections, five years as a very flat projection in terms of the dollar amount of Multifamily loans that would be originated by the Agency. And many expressed concern about that flat-line approach. And we started to get into a discussion about some of the causes and barriers and issues in trying to grow the CalHFA Multifamily business over the next five years.

So as we started to engage in that discussion, I think it was a consensus of the Board that we would ask Terri and the Multifamily staff to really give us a briefing and a presentation where we could engage in some detail, and taking a look at our Multifamily Program and the various facets of it and some of the issues that they believe that we're dealing with and the Board should be cognizant of in dealing with in terms of trying to maintain an active and growing Multifamily origination. And so we have that.

Now, I believe everybody has received a packet

that we received in the mail, which was put together, a briefing packet from the staff. And then you have additional paperwork at your place that I'm sure Terri and the staff -- you have the architectural guidelines, Multifamily programs, CDLAC allocation, and then an architectural processing. So we have stuff.

And with that, Terri, I'll turn it over to you and let you moderate this part of the Board meeting.

MS. PARKER: I have three packages on the office consolidation, so I'm going to have to borrow Laura's here.

Are you going to run the slides?

MR. GIPSON: I can.

MS. PARKER: Okay, you all have slides at your desks. But, Mr. Chairman, as you have outlined, that's exactly what we propose to do today.

And we sort of set, for the staff, the task by looking at what sort of the objectives of how we see the Multifamily Program is and, you know, our role from the standpoint of our competitiveness of market share, and asking ourselves the question about whether or not we are out of the market.

We have looked at a number of our programs and products. And from the standpoint of today, I hope we can have some consensus around what our Multifamily role

is, a better understanding by all of you of the barriers to competitiveness, and identify issues for further discussion at subsequent meetings.

We may very well, given the depth of these and timing and your patience and tolerance, want to try to do these things in a thoughtful manner to get at some of the -- really, the complexities of the issues. And we'll have the Board give us some feedback on their perspective of what our Multifamily lending goals should be and thoughts about how to increase that.

I'm going to go through very briefly what we're going to talk about today, and then we can get into the meat of it. And from the standpoint, again, depending on how you want to manage time, we can pick out some parts of this. I won't hold us to this, if that would be the pleasure of the Board.

We're going to go through a general overview. Obviously, issues that are impacting, including the recruitment of the Multifamily director, how we market our program, the issues about the allocations and application process for CDLAC, which is -- since these are 4 percent deals mostly that we do, we need to go to the allocating entity and make our case.

As you've just witnessed what Laura did, of the process that we have been delegated about loan-approval

level, our underwriting requirements, including our architectural designs, earthquake insurance, how we treat long-term borrowers, fees and costs; and then bring Bruce up and talk a little bit about our financing because clearly, at the end of the day, it is about rates, but it's not all about rates.

So let's get into the meat of the discussion. And, again, if folks want to pull things out, we can do so.

I'm going to --

CHAIR COURSON: As you move through, my suggestion would be if there are questions or comments, that we solicit those from the Board as you're going through your presentation --

MS. PARKER: Absolutely.

CHAIR COURSON: -- so we can dialogue.

MS. PARKER: We presume this is an interactive, so stop us at any time.

CHAIR COURSON: Okay.

MS. PARKER: The first is really to talk about the role in the marketplace. And, you know, we'll go through, and I think you all have seen in the numbers that we have done and the business plans the last year, year and a half, that our percentage of the marketplace has declined. You know, there are several factors for

that, and we can talk about them. I think we talked about this when we did our business plan.

Some of them are just the fact that in competitiveness with other borrowers, we're not as competitive on rates. We have not had, in that sense, somebody to really provide the position of the director of Multifamily. And I would take a minute and stop and say, as I mentioned earlier, that a number of our staff from Sacramento are here in this meeting today. Laura and Edwin are both chiefs. And in that sense, in the hierarchy of our Agency, we have a director of Multifamily. There is a number-two position, and then there are the two chief positions. Technically, those two positions at the top are vacant. And so it's Laura and Edwin as chiefs that are doing the day-to-day running of the organization of the program.

And in that sense, I would tell you that Laura and Ed and their staff have done an outstanding job with the shortage of staff, and really level of detail to keep the programs moving and accomplish the things that we have accomplished so far. But I mentioned that I was going to come back to this in my earlier comments. The lack of being able to hire a Multifamily director has been a significant issue. We lose that person who really is the face of the community by not having that person,

and also the expertise of really understanding how at the end of the day to be creative in getting deals done.

I have told you all that I've -- we've spent well over a year going through the process to hire this person, and are in our second recruiting firm.

And, actually, I have at my desk, which I will pass out to all of you, a -- I asked our most recent recruiter to give me his sense of whether or not he felt that the salaries that we had were competitive, given the industry.

And if you don't mind, I'm going to walk back around and get those.

CHAIR COURSON: Is this the stuff?

MS. PARKER: Yes.

CHAIR COURSON: I'll hand them out.

Do you want one?

MS. PARKER: Yes, that's it.

What I've been told is that, for one thing, that the pool of people who have experience in multifamily deals, particularly affordable multifamily deals, is very small. And so as part of what I wanted to chat with you about is whether or not we truly look for somebody who is a banker with that experience, or that we try to hire somebody that may be a banker that has no experience in affordable lending and, in that sense,

would have to sort of learn it, at the same time managing a staff that probably, in some respects, will have more expertise than the individual will.

It's likely that I could hire somebody like that within the pay ranges that the Board has adopted.

As you can see by the comments here, most of the people in this business have a base salary and then they have bonuses. Sometimes their bonuses are often 75 to 100 percent of their base pay.

People who are in this business like bonuses because essentially, from their standpoint, they're aggressive deal-getters, and they in that sense get compensated on their work.

As you all recall, when we had the discussion of doing the legislation last year to create compensation for the executive -- the exempt employees, we, early on, had discussions about trying to get bonus pay. But it's so rarely used in the state, and it is not -- the Department of Personnel Administration really frowns on it. So when we tried to get this legislation, we didn't try to -- it was enough to try to get salary-setting authority without getting bonuses, which is not something that the state structure has really been supportive of.

So we're stuck with what we have. And so we don't have a bonus package. We have straight salary.

And then I think that there's two other things that have been somewhat of a hindrance. One is, if you look at our benefit structure, we often talk as state employees how great it is. However, if you -- depending on your age -- and this is no discourtesy to anybody who is in my age group -- the benefits the state provides are really great if you are a person coming in, that you have ten to 20 years of a window of opportunity to look at because then the health benefits that are offered and vesting in a retirement system is worthwhile.

If you're looking at coming into state government for five years -- a three- to five-year job, it's totally not meaningful at all.

And we have been told by people that we've been recruiting that they have gone back and done the numbers. And, you know, those people that we've talked to so far, that is the feedback. Numbers don't work for them.

It's also a situation that when we talk to people from other locations, when they look at relocating to this community, that the state does not really have any kind of a relocation program. And so that is not an inducement to recruiting people, particularly from the private sector, who are used to those kinds of things.

So I want to, again, say that that's been part of the issue; but just to take one more minute of your

time to try to get some feedback from you. I have looked at, in the last month or so three different people.

I have talked to an individual recently who, I think, meets all of the criteria of what I have been told by the Board in the past that we are looking for. Someone who is a banker, someone who has a background in affordable housing, has done deals, likes to do deals, knows California, and, actually, someone who happens to be located in Sacramento. So the issues for this individual of relocation are not a problem. This person is also at an age that the benefits, I think, would be attractive. However, his salary is, on average, in the last three or four years, has been in the two-ten, two twenty-five range, sometimes higher.

So I would say that it's probably a non-starter for me to have discussions with him on what we have approved as a range right now for the director of Multifamily, which was done last March. The maximum is 190.

I think when I had talked with all of you before, I had essentially gotten the sense from you all that if it wasn't enough for a qualified candidate, that you would be open for me coming back with a number. But I wanted to essentially alert you to that today. And to the extent that you can give me any feedback on that

for any of the recruiting that I am doing, or the recruiter, it would be helpful.

CHAIR COURSON: Comments from Members of the Board?

(No audible response)

CHAIR COURSON: I know that we have seen, and Terri has shared with me, resumés. I happen to have seen the resumé she is talking about, actually this morning through my e-mail. And we are getting some qualified folks. The issue does come down, as we had talked when we had our discussion over salaries previously, it's a matter of the levels. And, obviously, in the private market, they get there through a base and a bonus. And the bonus piece is problematic for us. We don't have -- really, in the legislation, didn't have the authority. We can set salaries.

And so I think Terri's looking, as we move forward, as we approved these ranges several months ago, we did have that discussion. I think Terri would be interested in knowing where the Board is if, in fact, she finds a well-qualified candidate.

And let me add one thing. This is the one hire that the Board itself makes. The other hires are through the Governor's office. This is one that -- the director of Multifamily is a Board position. And so it will be

our decision as to who to hire and to establish that compensation.

MS. PARKER: I'm not asking you to make any -- nor is it agendized -- to make a change today.

CHAIR COURSON: Right.

MS. PARKER: I only want to do this from the standpoint that, if I were to bring back a quality candidate, this particular person might be one, and perhaps be able to do it in the next 30 days. I don't want to waste the Board's time, nor this person's time if the dollar amount that I'm talking about is something that you think is just too much for us to be paying under any circumstances.

CHAIR COURSON: Ms. Galante?

MS. GALANTE: Well, you know, I would just say this partly relates to your first bullet point there: You know, do we want the Multifamily Program at CalHFA to be a significant player in the business? And if the answer to that is "yes" -- and I am old enough to remember when CalHFA did very little multifamily, and was, frankly, beaten into submission way back before you, Terri -- you know, really, there are lots of people advocating in the community that CalHFA should be more than a single-family lender, should be more involved in multifamily. And over the years, I think, has taken that

to heart and become a real player.

And, you know, what we're seeing now, I think both because of this position but because of some of the other things that I know we'll get into, I think CalHFA has lost that leadership position in multifamily.

So, you know, it's going to -- we may need to do a lot of things to be the leader of multifamily again; but certainly having a director of a very high caliber is going to be critical, or all the -- all these things are going to be linked. We're going to need to do all of these things, not just one of them. So, you know, personally I'd be open to finding the right candidate. And if that means we need to pay a little bit more, I'd be open to that.

I do have questions about, given what we've just been through, process-wise, you know, what we would need to do in order to effectuate that higher salary level. But from the standpoint of just what is it going to take to get somebody good if this is what it takes, we need to go a little bit higher, I'd be open to that. And I think it is a difficult time in the marketplace, actually. I mean, multifamily is hot again, and so there is a high demand on people who know how to do this business.

CHAIR COURSON: Let me respond to the process.

I mean, as I said, this is a Board hire. So it's going to be the decision of this Board to make a decision on what individual to hire. If Terri brings forth a candidate or more than one candidate, it will be our decision to vet that person and make that decision. And, two, having made that decision, it's going to be the decision of this Board as to approving the compensation. So it's the Board's decision who to hire, and the Board's decision as to setting that compensation.

MR. DAVI: Just to clarify, Mr. Chairman, didn't we approve in January of this year a range for this position for this year? And so we have to go and change that in order to do something different?

CHAIR COURSON: We did approve a range. I think Terri indicated it was -- I think the midpoint was, like, one-eighty and the top was one-ninety?

MS. PARKER: Well, the Board approved a range in January. Then the Board went back in March; and for the salaries, with the exception of the executive director, went to the maximum, and reduced it by 5 percent, to essentially narrow the range.

At the end of the day, the legislation that gives the Board the authority for setting salaries requires the Board to essentially set a range, and to have the range be based on a salary survey, and that the

legislation says that the Board cannot set a salary any higher than what the ranges are in the survey on a position-by-position basis.

And if you'll recall, this is the one position in the salary survey that, depending on whether you looked at other HFAs or you looked at the private sector, some of these salaries for these positions were as high as in the half-a-million or more dollar amount. And the Board did not set a range that high.

But I think -- you know, I think that the range that was in January -- and I don't have that, but I think it was probably about 200,000.

But today's range, that you all adopted on March 8th, has a range of a minimum for Multifamily at one-forty, midpoint of one-eighty, and a maximum of one-ninety.

CHAIR COURSON: I think to respond, Mr. Davi, I think two things: First of all, the Board obviously did approve the ranges, and then we modified them, as we recall.

MR. DAVI: Right.

CHAIR COURSON: So clearly, the Board would -- if, in fact, they were going to approve a salary, that would mean that we would have to change -- you know, intuitively have changed the range for that job, which we

have the authority to do.

MR. DAVI: Right.

CHAIR COURSON: I think it would be important that -- and what we may want to do in this particular case -- is go back to the survey material we had. I don't recall, either -- you know, and frankly, I don't have it with me -- on the Multifamily position, what the -- if you recall, we had three ranges. We had - and Carla, we'll get you a copy of the whole thing. We had three ranges. One was private industry, one was not-for-profit, and then the third was the custom survey of the 22 other agencies, including HFAs.

As I recall, in all instances -- I know in all instances that the one-ninety that we set was below the maximum ranges, but we'll have to be consistent. And so I think that one of the things that we should do is go back and look at that. And we can certainly circulate that, if you don't have it again, particularly for the Multifamily.

Yes, John?

MR. FILLMORE: I was just doing a back-of-the-envelope calculation, based off of the letter that you just distributed, it looks like the midpoint that your recruiter found, if you take the base between 100 and 150 and the bonus of between 75 and 100 percent,

would be somewhere in the $235,000 range, which is 125, 130 percent of what you're offering as your midpoint at one-eighty.

I would suggest that you're hoping for a miracle if you're going to find a qualified candidate who is going to accept that range. That's looking at a significant, significant pay cut, even for somebody who is willing to go into the public sector.

MS. PARKER: I can't tell you how much I appreciate that statement, and have been living it for quite a long time.

You're absolutely correct. I mean, we have -- all of you -- I've talked with all of you about candidates, and this is just the reality. It's going to be -- I don't even know if this person would take 200. But I think in this particular case, at least it's somebody that I can point to the other benefits -- and there's no moving requirement -- as an incentive.

So if we were to do this, if this is a person I want to come back, I think process-wise we would have to hold another hearing of the Compensation Committee, so the Compensation Committee could then make a recommendation to the full board about salary. If the Board did that, then they could look at this particular candidate.

CHAIR COURSON: And in the interest of process, and in the interest of ensuing discussion, since the compensation that we've discussed before, I would suggest we not do the Compensation Committee. We consider that as a board, as a whole.

It always seems we're going through an extra step there. The Board needs to make that decision. I would encourage us to look at the ranges, look at the candidate, look at the salaries, and make that decision as a committee of the whole, as opposed to going through the extra steps. And frankly, based on discussions that are ongoing, I think that the best process is to have the Compensation Committee really as a committee of the whole.

Ms. Javits?

MS. JAVITS: Just a couple of thoughts. I mean, first of all, I think clearly we want to attract the best possible leadership for a position of this significance, given the scale of the multifamily housing problem in the state of California. So we want the best leadership we can possibly get.

And at the same time, I guess what I'm hearing is, we've got the law, we want to conform with the letter of the law, we want to conform with the spirit of the law.

We've made a fairly recent decision about range, salary range, as I understand it -- and I'm new here, obviously, to the Board.

So it sounds like the market dictates that the salary range would have to be higher than the salary range we set to attract the best candidates. And yet just a few months ago we set a salary range, I assume in conformance with some sort of salary survey, that now appears not to be workable.

And I guess the one thing in there that concerns me a little bit is just -- I don't think it's great practice to set a salary range -- a range based on an individual candidate.

So just in terms of pacing -- and I understand with respect to the urgency, I just think those two decisions ought to be made sequentially, not at the same time, just to kind of respect what we're supposed to be doing in terms of calibrating the salary.

But at the same time, given the difficulty of recruiting terrific candidates, you know, I think the urgency is there. So certainly, at least as a new member of the Board, I'd say I'd be glad to participate if we need to have a series of additional meetings. But I just think we ought to separate those two, at least in time, those two decisions.

CHAIR COURSON: Well, we certainly -- and I'll ask counsel to respond -- we have the survey. I would suggest -- and, unfortunately, I don't have it with me -- but I'm thinking that what we would have to do, in conformity with the law, is to take a look by position, take a look at the Multifamily position, at the data that's behind that, take a look at that. And as a board, if we choose to reconsider and reset the range based on the data we've got for that position, step one. And to do that, we obviously can get the data to everybody, that would require -- it will be a formal action of the Board, and it will require a board meeting.

As step two, if there is a candidate -- and clearly, I think as members of the Board, we're going to want to meet that candidate, talk to that candidate before we make a hire decision, and then set the specific compensation inside.

So it's really a two-step -- what you're suggesting is really a two-step process.

MR. HUGHES: Mr. Chair, the statute that was enacted just basically imposes two legal requirements on the Board in terms of setting the salaries.

The first is that the Board is charged with setting a salary in an amount necessary to attract and retain a person of superior qualifications, that's number

one.

And the second part, as Terri had mentioned, that the compensation can't exceed the amount shown in the salary survey.

My recollection is the salary survey showed positions at the 25th and 75th percentile, and that's the range we have to deal with essentially.

But I think the process is essentially left up to the Board, as long as it's consistent with the legal requirements that are set forth in this statute.

CHAIR COURSON: But it would take a board action to change any salary ranges previously approved by the board for any position?

MR. HUGHES: That's correct. I think the Board would do that by resolution, just as it did previously.

CHAIR COURSON: And the logistics are that, to do that, we would have -- we can provide the information, and we would need to have a board meeting to make those changes. And if we wanted -- and there could be a -- could result in the process, we would end up with two board meetings between now and our next scheduled board meeting in September, only because if, in fact, there is a candidate, and that candidate -- it might hold until September, I don't know. I mean, I don't know any of the timeline. We might be able to put that over until

September, but it would require a board meting -- an extra board meeting if we want to do that prior to interviewing the candidate.

MS. PARKER: Let me -- again, we didn't agendize this because some of this has even come to us in the last week.

I mean, I guess what I know now, the salary range that we have is not sufficient. So irrespective of the candidate, we need to have -- the salary range needs to be raised.

So I don't know whether or not we want to do something -- if you want to separate them, you know, do something about trying to schedule something soon, or --

CHAIR COURSON: Mr. Davi?

MR. DAVI: I didn't want to interrupt her. I just want to speak after she's finished.

CHAIR COURSON: She took a breath so she lost her right to continue.

MR. DAVI: You run a tight meeting, Mr. Chairman.

Okay, yes, I think that the process you've outlined is -- and I confirm that that's what we need to do. I just think that this presentation is an overall presentation about why we are suggesting from our last meeting to do this much multifamily versus why not more.

And I'd prefer right now that we hear what are the real problems related to why we're not doing as much multifamily as we maybe want.

It may be that the salary alone is not a sufficient solution to our problem or our concerns. So we know what we have to do to raise the salary, we know the process. And if we need any special meetings, we'll have them. But I'm curious to see what other factors are prohibiting us from doing more multifamily before we start focusing in on one thing. There may be a lot of steps we need to take.

CHAIR COURSON: I think that's a very valid point. And I will look at the survey, and make sure, Ms. Javits, that you get it. And we'll see what our next steps will be as we work through this process, and perhaps as some additional vetting takes place of a candidate to make sure that we do then take advantage of a special meeting to work with the compensation.

Mr. Carey?

MR. CAREY: It does seem that one of the basic questions is whether we are willing to reconsider that range. And I, for one, I'm willing to reconsider that again.

MR. SHINE: Here, here.

CHAIR COURSON: Okay. I get a sense that we're

willing to consider it. And we'll put some materials together, and then see about scheduling an opportunity to do that.

MS. PARKER: My apologies --

CHAIR COURSON: Because it won't be just this candidate. This is bigger than just one candidate.

MS. PARKER: My apologies for taking so much time. But I think Mr. Davi is correct from the standpoint of this is one major part, and it probably goes back to, you know, the discussion of the first bullet there: Does the Board want the Multifamily Program in the marketplace to be a competitive lender or a lender of last resort? And at least what I've heard so far is the desire to have CalHFA be a competitive lender.

So I'm going through -- we're going to continue to proceed along with the discussions with that in mind.

I'm going to ask Laura to give you a little background of what we do from a marketing and business development standpoint, so you can see, you know, how do we try to get deals.

MS. WHITTALL-SCHERFEE: Thank you.

When I was reviewing the Board minutes last night, I realized that some of what we're going to talk to you about today, we did touch on at the last Board meeting. So for those of you that are going to hear some

repetitive discussion, I apologize, but there were a lot of you also that weren't present.

One of the things that we do, and probably the most common thing that we do when we're trying to bring in projects, is that we talk to developers and we talk to consultants. "We" means at every level.

I can tell you that our associates, our loan administrators are talking to their counterparts at the various nonprofits and for-profit developers. The loan officers are speaking with their counterparts. And Edwin and I are speaking with our counterparts. Because we know that deals happen because people are visible, and people make the effort to bring in the business.

I wish it were only that easy. If that were all to do, I think we would be blowing you away with the amount of business that we could bring in. What we're seeing, though, commonly or more recently, is a lot of developers are using RFPs. They're going out into the community and asking the lenders to come to them with proposals. And they're giving us specific packages that describe deals and describe other sources of financing that they may have. And they're asking us to come back to them with our best offer.

We do that, and one of the things that we ask in return is if we are not the lender selected, we ask

that we be told not necessarily who got the deal, because that's not always the question that people want to answer, but we do ask what the terms were and what convinced them to go with the other lender.

That is not something that used to happen even two or three years ago. Two or three years ago deals were shopped around, there's no doubt about it. But the notion of RFPs is something that we have just seen in the last couple of years. And what it allows, from our perspective, it allows much more of a comparison of apples to apples. You know why you didn't get the deal because you can talk about what the interest rate was that was offered, what the loan fees that were charged, and all the other benefits that may have gone into making that deal happen.

So RFPs are a reality today, and they are also a way that we try to bring in business.

We also have our internet Web site. There's a section that's devoted simply to Multifamily.

And we do receive quite a few phone calls off of that Web site.

What we have discovered, however, is that by listing our interest rates, we feel we've put ourselves at a competitive disadvantage, because lenders and nonprofits and for-profits can just go straight to the

Web site, they can see what it is we're offering. They don't even have to call us, they can just beat us.

In the past, it worked very, very well. When you are 20 to 30 basis points underneath your competition, it gets those phones ringing. When you are at the same level as your competition in terms of interest rate but you still have additional requirements, such as earthquake waiver that costs $12,000, if you want it, otherwise you have to have earthquake insurance coverage which other lenders don't require, those kinds of things, they prevent the phone calls from happening.

So one of the things we're talking about doing is changing the interest rate term section on our term sheets, which you all received in this package, to say, you know, "Please call for recent quote." So at least we'll be getting the phone calls.

However, we wanted you to see what our interest rate environment was -- or, rather, what it is right now. So we did include the interest rates in the package that was provided to all of the Board members.

We also speak publicly whenever we can. And by that, I mean, we attend conferences and we like to be asked to participate in panels. We attend groundbreakings, we attend grand openings, and whenever possible, we try to speak at them because that's a very

good way to remind people that you are there and that you are interested.

There are also other multifamily-type industry functions. Brown bags that are being held in San Francisco or NCSHA -- I'm sorry, NPH will have a cocktail party in San Francisco. Whatever we can attend that are more casual functions are also things that we attend.

The reality, though, for marketing, we do not have expense accounts, we cannot take people out for lunch, we cannot take people out for dinner, and we also cannot allow people to do the same for us.

I know there are restrictions. We can do it within a little bit of a range, and then we have to fill out the proper paperwork at the end of the year. But we do not have the ability that a lot of other lenders have to try to bring in business. And so that is a disadvantage for us.

One of the things we are also doing is we're working more closely with our Marketing Department. In the past, the term sheets in this package were the extent of what Marketing did for us. They were focused heavily on single-family. Now, you're going to see a package that Edwin is going to show you for the architectural guidelines, and we also were working with Multifamily

and Marketing to issue press releases on deals that have been approved by the Board.

I don't know if you've received copies of those, but that's been something we've been doing for the last two to three years, and it's something, frankly, that we didn't do years ago.

We also are working with the Marketing Department to develop a flyer. We've been trying to come up with ways to be more competitive. And while we've been releasing those ideas to the general public and the nonprofit developers and the consultants, we really wanted to put together a flyer that would roll out a lot of the changes. Because, I think as Mr. Shine mentioned, sometimes what we get stuck with is more of a historical, "Well, working with CalHFA is tough because…," and you hear about something that was a problem five, six, ten years ago. And we really wanted to send out a flyer that said, "This is what we're doing now. Here's what our programs are really all about, and here are the changes that we have made to date." That is something that has not been finalized yet, but we have been working with the Marketing Department on that.

And that's a general overview of what we do as part of our marketing and business development.

Questions?

MR. DAVI: I have a question.

I thought you mentioned that when you do the RFPs, we're not getting -- if we're not successful, we are asking what was different or what was the reason that you chose another lender, not who the lender was.

Could you give us some feedback on what were the reasons? Was it the three things you just mentioned or was it something in addition to that?

MS. WHITTALL-SCHERFEE: Well, sometimes it just depends on the project.

The most common thing we're seeing is that whatever we come in at, there is a lender that is coming in lower.

MR. DAVI: Right.

MS. WHITTALL-SCHERFEE: Our interest rates are competitive in terms of we're in the mix. We are not the lowest, and some of the things that we tack on that are part of our process, they add cost. And so we frequently hear, "Your interest rate was pretty good. Not as great as maybe it could have been, but you have your earthquake insurance waiver, you require things like replacement reserves," and some of the fees that I'm going to get into a little bit later on in this program are things that lenders by themselves don't require but we do.

The other thing I hear more and more is that people are waiving loan fees because they can issue the letter of credit, they can be the equity investor. There are so many other ways for them to be much more competitive than we can be, using some of the traditional methods.

MR. DAVI: Okay, thank you.

MS. PARKER: We wanted to touch briefly on another component of how essentially financing Multifamily works, and that is the allocation process under the Treasurer's office, where the California Debt Limit Allocation Committee resides.

There is a -- I think we handed them all out to you in your package.

CHAIR COURSON: There is a handout.

MS. PARKER: What we tried to do is give you the benefit of doing some analysis of what was the allocation that we had -- or what percentage of the allocation of bond cap that went to Multifamily, what percentage CalHFA was in 2003, and then what percentage it was in --

MR. GIPSON: 2006.

MS. PARKER: -- 2006.

And as you can see, we have lost market share. And primarily what has sustained growth and increased

growth is CSCDA, which is a conduit issuer, which clearly there are banks behind that, there are ones that are doing the terms that Laura is talking about.

We don't have the ability to go in there and look at every one of those loans to make a comparison of what we would have done. We just -- it ends up to whether or not the banks would give us the information in the first place.

But it clearly has been a situation that a lot of the issuers that use a conduit issue, like CSCDA, do not have some of the longer-term regulatory agreements that we have; however, that we have just made some changes to. That has been, I think, one of the more negative aspects of our products.

The way the allocation at CDLAC goes is that every project has to go on a case-by-case basis to the Treasurer's office and it is reviewed. Again, you know, that's what everybody has to do.

There have been some discussions at one point in time about whether or not CalHFA could work with the Treasurer's office to have an allocation made for Multifamily that, given certain guidelines, whether it be for a high-priority public policy purpose, that way, it would assist not having to have those developers go to two boards at two different times, because the amount of

time that it takes to do that.

It's something that I've raised with the Treasurer's office at different times, but is a very competitive process. And I think it's a matter of trying to make an argument about whether or not we would receive some preferential treatment next to other issuers.

But I think we have talked about doing it if we were going to do it for maybe some special programs, maybe homelessness. Something that would help if we all agreed on what the guidelines were because of the need to go to all these different committees, it takes time, time means more money to projects.

So I just wanted to give you some sense of, you know, how we stand relative to our counterparts for the allocation process and what additional timing that adds to the cost of someone to consider our projects relative to other folks.

CHAIR COURSON: Ms. Galante?

MS. GALANTE: Terri, wasn't there a -- my memory here is fading on me, but wasn't there a time, particularly when getting an allocation from CDLAC was extremely competitive, oversubscribed by a significant amount, and you had to commit to closure of bonds within a specific period of time? That there was a time there where I think you could go to CalHFA -- CalHFA had an

allocation from CDLAC, and you could go to CalHFA with your individual project and not have to meet the same competitive time frames as other people were meeting in the CDLAC process.

Am I the only one that remembers that?

MS. PARKER: Here's the --

MS. GALANTE: It definitely gave CalHFA -- I can tell you, it gave CalHFA a competitive edge.

MS. PARKER: Here's my recollection of that, I think that might have happened even before I came. There was at one point in time when the Treasurer's office had surplus allocation. And what they did with it at the end of the year was by giving it to us, we could essentially hold that allocation and not have it be lost for the year.

MS. GALANTE: I see.

MS. PARKER: And so we had this corpus of allocation that we could then use for projects, so it was not lost to the state in totality.

So we have served that role for CDLAC most recently, the last several years, in the Homeownership area when they have had excess surplus at the end of the year. They've given it to us, we've rolled it into Homeownership, and that's why we had a $1.7 billion program this year.

So it was a surplus amount, it was given to us, and we used it in that capacity to do a number of projects that we could -- apply to us, we could approve them, sell the bonds. Because that's the other thing that is unlike us from others, particularly conduit issuers: We sell bonds with pools of projects in them as a way for us to cut costs and efficiency. So by having that corpus of funds, we could make a bunch of projects, do a bond, and take them out and fund them.

CHAIR COURSON: Yes, Ms. Wynne?

MS. WYNNE: Well, I wish I knew the answer to this question. I think it's an interesting conversation.

I do know that Bill Pavao does know a lot about this, and I will maybe ask him to send out an e-mail to Terri, kind of explaining what's going on, and then she could communicate with Board members.

MS. PARKER: I think the CDLAC allocation this year is competitive for all of the pools that it has: single-family, multifamily, exempt facilities, student loans.

And as you all know, for the Homeownership, our allocation is less this year because we share some with the Department of Veterans Affairs that came in for Homeownership that hadn't come in for years and years and years.

I think that the allocation on the Multifamily side, while it's not as great as it used to be -- it used to be sometimes 4 to 1, I think it's probably now 3 to 1 or 2 and a half to 1 -- the demand is great, and particularly some of the other pools have made it great. So there haven't been these surpluses sitting around like there have been in the past.

But the California Housing Finance Agency stands ready to serve the Treasurer's office, any reserve amounts that you have. And if there was something that was like this, I think we would try to make a pitch to the Treasurer's office as something that would be beneficial to the state in totality.

CHAIR COURSON: Thank you.

MS. PARKER: Laura, do you want to talk about the Board approval level?

MS. WHITTALL-SCHERFEE: This morning we went over the 4-million-and-under approval. And that approval level was delegated to us several years ago.

The understanding was, if it wasn't a special-needs deal, and the aggregate total was 4 million or under, that we could take it to the Senior Loan Committee within the Agency and get it approved. And we needed to come back and provide the Board with an update on a regular basis. We're doing that now every six

months, and we just did that today.

That said, everything else needs to come to the Board. And the Board meets, as you know, generally every other month, six times a year.

When we're competing with other lenders, this can sometimes become an issue, because borrowers bring us deals. And they are looking, sometimes, for a very quick response. They want to know if this deal works.

We can take a deal -- we can take a project to Senior Loan Committee for an initial commitment; but we cannot tell them that it has been approved until it is generally approved by the Board.

And this is counter to how the other lenders that are our competition work.

Generally what happens is the loan officer underwrites the deal. And that is the same thing that we do: We underwrite the deal.

But then instead of needing to go to a committee for approval, they go to the next person in the chain of command. They go to a credit officer. That credit officer frequently has an authority level of about $7 million. And I know it varies by lender. I talked to two or three of them, and this is what they told me their process was.

So at $7 million, that's quite a few projects

that we present on a regular basis. A first-line credit officer above the loan officer could technically approve that.

If that was above that person's credit limit, then they would go to a senior credit officer. And what I'm hearing is that senior credit officers have approval levels of somewhere between $10 million and $15 million in the multifamily arena. That whole process generally takes about 48 and 72 hours.

Clearly, that is not something that we can do. And so the question that we were raising internally, but also that we're asking the Board to provide us with feedback on is, should the current process be modified.

MS. PARKER: I would add, too, Laura, I think we have discussed this issue with the Board a couple different times, and I think at one point in time we were going to bring this back and talk with you about this. And now I think -- we've been kind of waiting. We have been looking at all of the competitive points of our program.

One thing that we found when we did this, when we asked for the Board the authority, which we felt was a significant delegation, and we tried to be very mindful of it when it was 4 million, one of the obstacles we found is that some of our loans have -- the permanent

loan may be under the 4 million, but the bridge loan, which would a month short period of time, may be put above the $4 million range. And so we have looked at the $4 million limit as a total limit of all loans, no matter how long they go. And so we have taken that definition. And so that has really probably impacted more loans that we could have done under delegation authority if it was just the long-term as opposed to the permanent.

MR. GIPSON: Instead of being the maximum amount of exposure at any one time.

MS. PARKER: At any one time.

MR. GIPSON: If it was at $4 million, the maximum exposure, and you had a $1 million construction and a $1 million perm, then we'd be okay. But as the aggregate, that puts us at $5 million, which means we've just slowed down on responding to them on what is usually a fairly clear-cut deal at that point.

MS. WHITTALL-SCHERFEE: And I would add that that is a limit that was set, I believe, four or five years ago. It's been a while.

I was looking at acq. rehab loans that were going to -- that are in our pipeline, and I'm hoping that you'll see them down the road -- they were on average $4 million to $5 million for the acq. rehab, and then $4 million to $5 million for the perm.

So as we see more and more emphasis on acquisition and rehabilitation, then you see loans that are the same when you get them in the acq. rehab phase as what we are going to end up for a permanent loan. So you have a $4.5 million acq. rehab loan, and a $4.5 million to $5 million perm. So that whole aggregate issue still is in play.

CHAIR COURSON: I think rather than obviously engage in such a discussion, as we go through this, I've got a note, and I think that might be an appropriate agenda item for our next meeting, is to have a discussion and a presentation and review.

I think it has been -- as I recall, it's probably been about four years because I think I was fairly new as chair. So it's probably a discussion we should have again for a future meeting, put it on the agenda.

MS. PARKER: Well, we certainly have a lot more information about this than we did when we essentially brought this to you.

We're going to go into underwriting requirements.

And, Edwin, do you want to walk us through this?

MR. GIPSON: Sure.

The first thing we have on there is the architectural design. And one of the things you'll find in front of you this afternoon is a copy of the old architectural manual, which is pretty thick, and a copy of the new, blue -- it's a blue architectural manual, which says "draft," only because at print time they didn't have the last comments in it, so it needed to be stamped "draft." But we wanted you to have something to take a look at.

And as we've discussed numerous times before the Board, it's been a long process -- I'd like to say a very thoughtful process that we spoke to the industry people, we spoke to other architects, we spoke to developers, we even spoke to contractors, cabinetmakers, a number of groups.

But the urban legend out there is that the Agency requires or has an onerous architectural process. But I think the key thing has been process. But in order to get through the process, you had to deal with a manual that was in place.

So I believe through the process that we've followed over the last year, focusing on what we thought was important, staff has all had the buy-in on what they believe. And we've had a few trial runs, and they've worked very well.

This manual now focuses on the key items that we're worried about and not all the things in code which has been historically the nature. So it's our interpretation of the different codes out there.

And I think it's come out well. And as we move forward in that process, we'll be able to demonstrate it further than just the two test-runs we've had to date.

MS. PARKER: And let me just slip in, I think one thing that we had in the material that was submitted to you last Friday was a document that Edwin put together to try to give you a sense of what we used to ask for and what we don't so that you don't have to look through the two documents and do a side-by-side.

MR. GIPSON: Yes. And that was mailed out previously. And you received that a couple board meetings ago as well.

I see there's a little comment about the industry standard here. There isn't technically an industry standard. What we found along the way is different developers do things differently. I'll give credit to BRIDGE real quick, and just say that they have a nice, good, quality standard that goes forth, but not all of our developers come forward with that. A lot of the issues that do come forward usually are coming from junior architects in a firm, not the principals. But

usually it's a junior architect working on it. And they need a little bit more guidance. This may be their second or third affordable housing deal. And it is not our requirements that are throwing them off, it's the different federal requirements throwing them off. And so helping provide some guidance along the way is key.

But I think what also happens from historically, a manual review, and even more so in the future, but in a much better process, is the avoidance of costly change orders. These change orders that have come forth can become very costly in the field when you find out that you didn't follow the UFAS requirements along the way. And it's like, we can point them out to you. And in the new process, we tell you what we're concerned about and we point out any issues you may have with other requirements as we've seen them. We're not enforcing them, we are not the enforcement body for those, but we'll point them out to help you avoid those types of issues.

And as Terri said, there's been many changes in the basic guidelines that were in the handouts that were mailed to you in your packages last week. And you can see that.

And so a great deal of the number of changes taking place, including things that we used to do,

require a special accessibility kitchen. We've now conformed to UFAS requirements just to -- I can't think of the word I'm looking for -- simplify -- there we go, thank you -- simplify that entire process.

I will just move down to earthquake, if I can, real quick.

Historically, the Agency has required earthquake insurance, and that's been an issue for a number of years. And so a number of years ago, we implemented a seismic waiver process for new construction projects. As Laura mentioned earlier, the price of that now is $12,000. It used to be approximately $10,000 to have that review done. But as we've seen in most new construction projects, the developers move forward without going about that waiver.

Even as that's still a problem today, we moved forward and changed. We used to have an 8 to 10 percent loss ratio; and now we've moved to a 10 to 12. And it made most people nervous. But what you also find in front of you today is a handout that talks about the new MBA process that they just worked out, the Mortgage Bankers Association, where most lenders were looking at a 20 percent probable loss before they required earthquake insurance.

So we're still conservative in that approach;

but I'm at least happy to say that we've got some consensus to move forward from the 8 to 10, to 10 to 12, and that helps.

And the other half of that, that we've also moved forward on, was a discussion about for rehab projects. We have had a number of rehabilitation projects which have done a great deal of seismic retrofit work but were never able to apply for the waiver, which meant they always had the cost, no matter how much seismic work they've done. So we've put into place a standard for them as well, that if you meet this new threshold, you will be eligible for the seismic waiver as well. So hopefully, those things will come to fruition to help ease up on the process.

MS. PARKER: You're on a roll.

CHAIR COURSON: Let me ask, but having said all that, is that still unique to CalHFA as compared to other lenders?

MR. GIPSON: Seismic insurance?

CHAIR COURSON: Yes.

MR. GIPSON: Yes, yes, it is. Absolutely. And, you know, one of the key reasons -- Laura and I have talked about this numerous times when we started asking to move that probable-loss number around -- is that it adds cost: You know, 8 to 10.

Most people were making 10 to 12 by themselves. They just really were. But that 8 to 10, about $600,000 at times in additional changes.

And they didn't seem like big changes. But let's say you changed the thickness of something in certain areas to make sure that that wall has thick enough drywall -- okay, they're not going to go wall by wall. They're going to order one thickness and they're going to go with that. And that increased cost is going to go across the project. And it's not going to be just those specific areas because it's not cost-efficient or building-efficient to keep measuring out each different wall for a drywall thickness, if you will. So those things added up.

So at 10 to 12 we asked our engineer to take a look at that, the seismic engineer, and that's how we got to 10 to 12, from 8 to 10.

CHAIR COURSON: Mr. Shine?

MR. SHINE: When you say we require earthquake insurance, is that like the 15 percent deductible policy that's out there now? What kind of insurance are you speaking about? What are the terms of it?

MR. GIPSON: I think it's higher than that.

MS. PARKER: This is from Margaret. Margaret is our earthquake insurance guru.

Margaret, it's $50 million per occurrence with a 5 percent deductible.

MS. ALVAREZ: Correct.

MS. PARKER: And that this policy covers 279 of the Agency's multifamily families, with a replacement value of $1.9 billion. And the annual premium cost us $3.3 million.

MR. SHINE: When the developer comes in with a project, 25 or 100 units, how much does it cost them if he elects to take the insurance rather than rebuild the unit in a way to satisfy whatever requirements there may be that we have?

MR. GIPSON: The estimate varies, but we do between 18 cents and 19 cents per hundred dollars of cost.

MR. SHINE: And what is the coverage of that policy? There's a deductible. When you have an insurance policy on a house or on a building, they say it's a million-dollar building and we're going to give you insurance of X dollars. But the first 15 percent of that is your deductible that you have to pay, or whatever it is.

What is it that our customer --

MS. PARKER: Well, the deductible is 5 percent.

MR. GIPSON: It's 5 percent.

MR. SHINE: All right. Therefore, does it make any sense at all to think in terms of maybe getting a larger deductible and reducing the cost? Because basically what happens is we don't have, on the multifamilies -- I mean, most of our loans are really good loan-to-value loans and we're loaning 10 or 20 or 40 percent, and if you have a loss, you could take an awfully big deductible and still be covered with a much, much more favorable premium on a policy that doesn't have to be the 5 percent deductible.

MS. PARKER: Margaret, I think you can share some -- not anecdotal information, some specific information on this that's been very enlightening.

MS. ALVAREZ: Actually, when I came to the Agency ten or so years ago, we had about $80 million in coverage for a portfolio that was about half the size that it is today.

If you go back to 2003, our total limit on an entire policy was $60 million. The next year, it was forty-five. The next year it was forty-five. And this past year, it's twenty-five.

And frankly, we had to fight like hell to get the $25 million coverage on a total insured value now that's about $2.2 billion.

The problem is, the whole world had

catastrophic losses in the last couple years. And the insurance industry changed the way that they underwrote. And getting insurance is very, very difficult.

And so we got the best we could, saying that we wanted to keep our premium rate the same as it had been in the last couple years because it had also jumped up quite a bit from, like, 16 and a half cents per hundred in replacement value five years ago, to 19 cents last year.

We wanted to keep it at 19 cents because of the high cost. And with that, we were only able to get $25 million in coverage.

It is 5 percent deductible. The minimum per occurrence is 100,000.

And even if we wanted more, nobody would sell us more. That was all we were able to get.

MR. SHINE: So are you saying that when we say we want you to have insurance, that means that we provide them the insurance at the terms and conditions that we were able to get it?

MS. ALVAREZ: Correct.

MR. SHINE: Not that they went out and got their own policy?

MS. ALVAREZ: People are allowed to get their own policy. We don't force anyone to take a policy with

us.

Even with this big dip in coverage and keeping the rate the same, many people who had jumped out of the policy came back this year because they also could not get insurance. It's a very difficult situation.

MS. PARKER: I think the policy question for the Board is really from the standpoint of should we have earthquake coverage or not.

I think it's fair to say, even with what we have right now, that there is -- the Agency, for all intents and purposes, is funding its own pool because of the limited amount of insurance that we have access to.

But this is an issue because of the cost that does make a difference between us and the other credit lenders.

CHAIR COURSON: Ms. Galante?

MS. GALANTE: I've just been jumping out of my skin here, because I do think of all the issues that we've talked about, the fact that CalHFA requires earthquake insurance is, if you had to pick one thing out of everything we've talked about that puts us at a competitive disadvantage, this is number one. And number two is the architectural design review. Everything else pales in comparison, in my view as a developer.

So, you know -- and we probably will need to at

some point get into a philosophical conversation about where the requirement for earthquake insurance came from and how important it is to either the Board or the staff, you know, in terms of how important that is to have.

But I will say as a developer, the tax-credit investor has kind of the most to lose. They're the equity here.

And you're right, Mr. Shine, the loans, the CalHFA permanent loans on these deals are usually, you know, quite small compared to the total value.

And the investors are looking at probable loss. I mean, you can't build anything that's just going to fall down. But any new construction deal still has to meet their probable loss ratios. And very few of them require earthquake insurance. And no other lenders require earthquake insurance.

And most borrowers, you know, left to their own devices, because of the economics -- you know, we're not really getting much, if anything, for this premium that we're paying for earthquake insurance -- don't insure against this loss.

MR. SHINE: 5 percent deductible is absolutely phenomenal terms for earthquake insurance.

MS. GALANTE: Yes, but you're paying --

MR. SHINE: My point: What happens if you

don't take 5 percent but you take 7 percent, 10 percent, 15 percent?

MS. ALVAREZ: It didn't change appreciably with our carrier. It wasn't that big of a difference money-wise.

CHAIR COURSON: Other questions?

I think this is another topic. But, again, it's not agendized, but I think this is another discussion that the Board needs to engage in as we now start to narrow down some of the issues in our Multifamily that, in addition to the approval levels, we'll also agendize a discussion and consideration of earthquake insurance.

MS. PARKER: And architectural guidelines.

So far, the three that I've heard you say: The loan authority, the architectural, and earthquake.

MR. GIPSON: I think we've addressed design, but I guess that's a Board issue as well.

It used to be about process. And I think -- honestly, I think we fixed that much like with the 30/15 program, that it helps.

MS. GALANTE: My last two sentences, I've reviewed these two packets in terms of the difference of the design guidelines or the new process, and I know a lot of our folks were involved and I'm sure a whole lot

better than they were before. But the fact that it goes to the marketing issue, the fact that there are architectural design guidelines at all and no other lenders have them, and that CalHFA has a long history -- you know, again I'm just trying to speak for the development community, in the development community's mind of requiring things that other people don't or changing their mind halfway through the process, the marketing work that you will need to do to overcome that past history, now that you've got these private lenders who are being extra, extra competitive, it used to be, we would calculate, if we were going to CalHFA, an extra $200,000 for a 100-unit deal, if we were going to CalHFA, and then we would compare your interest rate to the private market. That's what we did as a developer.

So, you know, you're going to have to really convince people that they're not paying that extra money, so that they're really looking at our interest rates, CalHFA's versus the private sector, and they're really comparing apples to apples.

MR. GIPSON: I'd like to actually address that.

One of the things we're going to go out to do in the architectural side is go out and reach and talk back to the developers and the industry as a whole about what we've done and why, to help overcome that exact

issue, and how the process has changed, and how it is actually different. It is going to be different, and it already has started.

And I think a key part of that was additional cost. You're right on point there.

And so as we go forward, the other thing the manual will do is, when you don't have a manual, and you can be more subjective about the deal types you're going to see as a lender, and when you just don't like what they're building, you just let it go, you know, a little bit of our public agency, as I think Tom put into the package, requires us to build projects of superior design.

But I think what the manual also does is says, "Here, everybody, here's the base standard. You won't have to guess, you won't have to run around. We've got a process. Here's the base standard."

You have some certainty in the process now, which I think was missing in the past as well. So I'm trying to get there as close as I can. I'm working with it.

MS. PARKER: I'm going to move Edwin along because I think this rolls into the next item, where we have discussed in the past about whether sort of there be a deferential treatment, it's not just architectural,

it's others, for our long-term borrowers. And this item is on here because what we want to reiterate to everyone, that how we have operated, we have operated under the assumption that we have to treat everybody the same because of being a governmental entity.

Now, I think what we have also said is that perhaps there is the ability to be more definitive. If you are a builder of such-and-such, and to the extent that we can provide the guidelines; but if we do anything that doesn't treat everybody equally, without very specific criteria and definition, then, you know, we might as well lose -- we'll lose the ability to hold any standards at all.

So we've put this on here. And the question to the Board is, since that's the way we've operated, whether or not we could, should -- or whatever -- or it could help competitiveness, if we tried to put some more criteria around and allow for perhaps some different process, standard, or whatever. Because the way we do it now is for our experienced developers, they essentially come in and ask for waivers on all these things. But maybe if we did it a different way, they would essentially not have to ask for waivers, they could apply for a process that they would know would fit their criteria to begin with.

But this issue really stems all around trying to have some kind of a treatment that when we get all those letters, we can defend it.

I think Laura can speak to some of the examples.

MS. WHITTALL-SCHERFEE: Well, actually, all I wanted to add to what Terri was saying was that the whole deferential treatment issue does come to the heart of our competitiveness issue in this way.

We believe that a lot of our projects come to us because we do build relationships. But it is very hard to sell the concept of relationship lending when you treat everyone the same. The borrower that you've never done business with before walks through the door with a ten-unit project, and somebody you've done 15 projects with and, you know, 3,000 units walks through the door with a similar project, and you treat them exactly the same.

Yes, they can ask for waivers, so they have to have been through the process enough to know that we do have the ability to waive; but there is no recognition of the importance of that relationship.

And that is something that we are trying to deal with, and that we find very difficult, the notion that we have a public purpose and we want to be fair and

treat people the same way, but that we also value the relationships, and we want to let people know that relationship lending really matters.

MS. PARKER: Laura, do you want to go into fees?

MS. WHITTALL-SCHERFEE: Sure.

CHAIR COURSON: Let me ask a question. This whole issue of deferential treatment, is there a Board policy that exists that sets that forth?

I mean, sort of to tell you about what's running through my mind, is if, in fact, experienced developers who we've done business with coming back repeat times and are asking for waivers -- and I won't use the word "routine," necessarily -- but as a more normal course of business they gather those waivers. In effect, there is some deferential treatment. In other words, we look at their experience, we look at their performance with us, and the staff makes a decision.

So I guess my question is, are you asking the Board for anything, or is this something at the staff level -- I don't think there's a Board, possibly -- at the staff level that you're suggesting that you're going to consider?

MS. PARKER: Well, let me just speak from what my folks have told me. I think some of this goes back to

the architectural design issues.

MR. GIPSON: Not necessarily.

MS. PARKER: It used to.

MR. GIPSON: It could have. Also fees and letters of credit and those types of items.

MS. PARKER: And so I guess what I'm saying is, you kind of have to look at all of these things together because they all are intricately linked.

And to answer your question specifically, Mr. Chairman, I don't think we've ever had direction from the Board on this. I think this is the way it's been since before I was here. It's kind of -- maybe it's the living legend of how we have operated. And to that extent, what the staff have been going through this last year, when we've been without a director of Multifamily, and kind of the loan business, been going through all of these things to really look at them and say, "Is this where we should be?"

MS. WHITTALL-SCHERFEE: Fees, okay. Fees and costs.

One of the things other lenders like to point out to our borrowing community is that they have very few requirements. Part of that is because some of the fees and costs that we impose are now being required more and more by the investor as opposed to by the lender.

So, for instance, we have a 10 percent operating expense reserve requirement on all of our deals. There are other lenders who advertise the fact that they have no operating reserve requirements, they have no replacement reserve requirements, they have no earthquake insurance requirement, they have the option of waiving their loan fees. These are all things that are spelled out very clearly in our term sheets. And they are costs that we have always assessed as an agency.

We have reviewed our fees and our costs in the last year, and actually in the last several years if you go back probably five and six years ago, we were charging, I believe it was a point-and-a-quarter on our permanent-loan fee. Right now, we're charging 50 basis points. We had a one-point construction loan fee, and we reduced that to 75 basis points.

So we have reduced our loan fees, in particular. We were charging $20,000 for legal fees. And recently, the decision was made that we wouldn't charge those. All that was doing was eating away at basis.

But the fact of the matter is that some of the fees that we still charge are still fees that our competitors look at, and they just undercut us in that area. It's something that we are trying to compete with.

But as I explained before, it's very difficult to get a really clear package on why a deal ends up going somewhere else, because there's so many areas within a project that you have to look at. Where one thing that we add, very much like Ms. Galante was saying, earthquake insurance may just be it.

I've heard numbers thrown out, of our loans at $200,000 to the actual -- our underwriting process adds $200,000 to the cost of the project. I've heard it adds $500,000 to the cost of the project.

I think what is clear is that the fees and costs that we charge are perceived by the borrowing community and the consultants that advise them, our process is viewed as adding costs to projects.

MS. PARKER: Let me ask Bruce to come up here and talk a little bit about financing, to give you --

MR. FILLMORE: I have a quick question about that. Some of the fees you mentioned don't seem to me that they would, on the natural, be things that are specific to CalHFA.

Do we have any kind of idea about the competitive market out there and what similar fees may or may not be charged by some of the lenders that we're competing with?

MS. WHITTALL-SCHERFEE: We have tried to find

some of that information out, but it's very hard to find information out like that. Because when you go to Web sites for our competitors, generally, they want you to call them, and that's not something they disclose.

We do know that our application fee, when we've been able to find out what it is, our application fee is $500. That is incredibly reasonable by anybody's standards. And it seems to be low.

However, loan fees at 75 basis points, listed rates are between a half a percent and 1 percent. Perm fees are between a half a percent and nothing.

It depends on whether you're intending to get your letter of credit from that lender. It depends on whether you're going to use their subsidiary for the equity investor. There are lots of things that go into deciding the fees and costs that are going to be assessed.

MS. PARKER: Fundamentally, one of the biggest differences is that a private financial institution gets to decide on a loan-by-loan basis, they can work with whoever that is and go in and sit and negotiate all of these. CalHFA can't do that because, again, just as we said, we'll be in a situation where we have to treat everybody the same. And if we get into a situation of having somebody say, "Well, why did you only charge blah,

blah, blah, blah, blah, blah," we can't do what a bank can do and say -- we just can't. We would be writing letters full time, defending what we did on every particular deal.

CHAIR COURSON: Ms. Jacobs?

MS. JACOBS: I think we might be going down a slippery slope here. I think we kind of quickly looked at that, "Do you want to be competitive or do you want to be a lender of last resort," and everybody goes "Competitive," on to the next slide. And I'm not sure that we've got enough participation from the private banking community here to let us know if that's really our role to be competitive with the banking community.

You know, we are a government lending agency that's focusing on the affordable housing market. And I don't think it's our -- it's our primary job to be competitive so when Wells Fargo drops its rates, we drop our rates.

And I completely understand this dilemma about how you lend to BRIDGE or me by myself, the same, because that is -- in the private market, it would be different. But I think we probably need to have that discussion a little more thoroughly, rather than focus on the various items that stem from that.

I think we might have gone through that a

little too fast.

MS. GALANTE: I wouldn't disagree with that. I was the one who said it, and listening to you talk and the deferential treatment on borrowers, I agree as a public agency and lender, those are going to be difficult things. And the environment right now is extremely competitive with the private banks. It may or may not always be that way.

I think it would be worthwhile to think about what is it that we can do that's special, and competitive in that way. Are there programs that we can do where people would want to come to us because of those programs or because of some -- you know, maybe it's a better interest rate for certain kinds of projects. And so we drive our business that way. I'm not quite sure what the answer is. But I agree, I don't think we necessarily want to drive to compete head to head with every one of the banks, as they're driving to below their costs, as I understand it, at the moment.

MS. PARKER: I think the other thing is, we have to be careful about how we use phraseology.

When I came, the Agency really stuck to a philosophy that we were the borrower of last resort. I think it moved five or six years ago to essentially have us look at deals where we could bring additional value

from a public benefit standpoint. By CalHFA's environment, could there be more affordability brought to the project? Could there be longer terms of affordability brought to the projects?

And so we moved, where we were at, to essentially say, "Okay, where can we add value that would not be given if we did not exist?"

And so we have used that definition when we talk about being competitive; not, I think, the probably looser definition of trying to be out there and, you know, go toe-to-tail with a private banker.

Frankly, that would be a disservice to all of us because we have in the past also pushed the marketplace. We pushed them to get into the acq. rehab market, when we essentially demonstrated that when we did it, that it was cost-effective to get into it.

So to the extent that we can do things and then leverage and push the broader market, it makes the market for affordable housing that much greater. So I guess I would go back and sort of ask the Board from the standpoint, I don't know whether it is -- this is a professional Board, so to some extent, you represent perhaps the private marketplace. But when we say about, "Should we be competitive," it really is, from our standpoint, asking whether we should be doing things

that, on the margin, make more affordability than what could be created if we were not a lender and playing in that sort of sandbox.

CHAIR COURSON: I think, Ms. Jacobs, your comment will clearly be on the table, if you will, as we take a look at some of these specific items going forward in terms of the program, because you're going to have to answer that philosophical question first.

MS. JACOBS: Right. I mean, I just think looking at what our fees are and whether we have insurance and other people have insurance, address that other kind of competitiveness rather than the broader issue that Terri just presented.

MS. PARKER: Bruce, do you want to talk a little bit about financing to give the Board at least an idea of how we have created the rates that we have from the standpoint of trying to be -- produce the lowest cost to borrower which we can for these projects?

MR. GILBERTSON: Absolutely. I don't think any discussion of our Multifamily loan program would be complete unless we talk about how we raise capital and what the rates that are established are to represent.

I was going to talk a little bit today about both tax-exempt financing alternatives and some of the structuring considerations that my staff and I go through

every time we issue Multifamily bonds, and also a little bit of history on the Agency's involvement on taxable financings in the 9 percent tax-credit world.

As most of you know, the Agency has historically issued bonds to a number of housing developments in a pooled financing rather than as a single-asset financing. And there's good and valid reasons for doing so. Primarily, there's significant benefits from an economies-of-scale standpoint, as well as diversification of risk on the underlying properties. Even though we're California-only property locations, there is diversification between different areas within the state.

Again, I think if we looked back over the history of the Agency, the majority, the vast majority of our experience has been in the tax-exempt bond market. First, it was the Section 8 programs, the 80/20 developments in the late eighties and nineties, and now the 4 percent tax-credit world.

We did, however, in the mid to late nineties finance about nine or ten 9-percent-tax-credit deals. I don't really know the reason why we entered into that marketplace, why we were competitive at that particular time. Because one of our most significant challenges in the capital markets is to raise taxable capital

efficiency, producing a rate that would be attractive to lend to, to a developer of affordable housing.

What I thought would be a good way to approach this today -- you can go ahead and turn one more page -- is just do a simple case study on a financing that we're currently working on. We've priced this financing. We'll be closing this $16 million Multifamily bond financing early next week.

As you may recall over the last few board meetings, the Board actually approved loans to three of these developments: The Diamond Aisle apartments project, the Eureka Family Housing Project, Parkview Apartments for both construction and permanent loans, the Las Flores was simply a construction-loan increase. It fell under the delegated authority, and I believe was on Laura's list that she discussed earlier.

But as we approached the financial discussion for these underlying loans, there's really drastically different financing strategies for a construction loan versus our permanent-loan program. Construction loans are very short in term, typically have monthly interest rate resets, that are reset to a spread -- of a spread to an index. Commonly, we have used the one month LIBOR, and we assess a spread over the index.

We recently, however, have introduced a new

program that's based on the Securities Industry and Financial Markets Association, referred to as SIFMA, formerly known as BMA. It's simply a tax-exempt index. And I believe with some of the projects that went to the May Board meeting, we have started to use that construction loan program formula.

The permanent loans are a much bigger challenge to us. Here, we have up to 30-, 35-, or 40-year permanent loan terms and that the bonds that we issue to finance those loans need to be structured to amortize as the underlying loans are amortizing.

I thought the best way to show this -- if we can turn one more slide, Edwin -- is to look at the three primary-structuring alternatives that we look at in financing, bonds for this, the purposes of these loans. And they really fall into two categories, and then two different takes on a variable rate debt issue and strategy.

The first one is if we had issued all fixed-rate bonds -- and this was pricing as of the first week in June -- you know, our bond yield for fixed-rate bonds for the life of the loans would be 4.92 percent. And we looked at two different alternatives in the variable rate bond market utilizing fixed payer interest rate swaps, one using a BMA-based formula and one using a

percentage of LIBOR-based formula.

As you can see, by entering the variable rate markets and utilizing interest-rate swaps as a means to fix our borrowing costs, we realize significant, significant savings. 4.3 percent for the BMA swap, and the percentage of LIBOR swap was 4.05 percent.

We selected, as a part of this financing, to use a percentage of LIBOR. So we, in all-in, expect to net the difference between the estimated mortgage yield of 4.9 percent and the percentage of LIBOR swap at 4.05, or 85 basis points over time.

It's important to remember, what does that spread really represent to the Agency? Well, that certainly needs to cover net of fees collected up front from the borrower upon loan approvals in different levels. We need to cover the origination costs of the Agency in approving the loan. Certainly the costs of issuance in the financial markets.

We performed the role as credit enhancer in all of our Multifamily products. The bond indenture that we use, the Multifamily Housing Revenue Bonds III indenture that we first opened about ten years ago is a general obligation pledge of the Agency. So in many of the smaller stand-alone Multifamily financings that you see, a GSE or a full letter of credit is used as a guarantee

or credit enhancer to the bonds.

Here, we have assumed that internally.

In addition, we have the ongoing loan servicing obligations over the life of the loans, ongoing oversight of asset management in the Agency in total.

The last slide, in the financing world, it really boils down to rate versus risk. The prior slide showed you the three different financing alternatives. Certainly, if the Agency is willing to take on a little more risk, risks that it thinks it can manage quite effectively over time, it will be rewarded in the financial markets.

This slide is really -- its purpose is to identify six of the financial risks identified with different strategies.

I would just simply point out that in a fixed-rate bond market there certainly are very, very few risks that the Agency would have related to the underlying financings and the bonds over the life of those loans.

Once we enter the variable-rate markets, in whichever formula, we're going to experience over time some risks related to basis risk on the underlying swap formula and the resets on our bonds. Potentially, if tax law were to change over time, we could experience

significant risks for the positive or to our detriment.

There are liquidity costs associated with variable-rate debt strategies. We certainly would be exposed to any swap counter-party failures or any other unanticipated swap termination events.

With that, I think I'll wrap it up, and certainly would be willing to answer any questions.

MS. PARKER: So we thank you for your patience.

If you have questions of Bruce or anyone, this is the point in time of now kind of, you know, where would you like to go from here.

CHAIR COURSON: I have several items that I've identified that I think we'll agendize. I wrote down: approval levels, earthquake insurance, architectural guidelines, and then I just made a note, competitive versus lender of last resort discussion.

And I take away from this particular first three, the approvals, the earthquake, and architectural, are appropriate discussions for action at the Board level. And if the Board chooses, we can put those on the agenda for the September meeting, and discuss those as a follow-up to what I thought was a very good presentation today.

Yes, Ms. Javits?

MS. JAVITS: Well, just kind of a related, I

guess, question or thought in response to the question about what more would be helpful. I mean, it seems -- all the specific questions, I think, as Ms. Jacobs said, are sort of under the heading of: What's the purpose? What are we achieving with the resources of the Agency? I mean, where's the value-add? And that's what Terri was saying, that's what you've really tried to look at.

And as I was listening to you, Terri, it sounded like that was around, you know, increasing the number of units that are affordable and the duration of affordability, something in that category.

So, as a new board member, I guess what would be helpful to me is to hear from the staff who think about this a heck of a lot of every day. You know, where is the value-add? Where's the most potent value-add that this Agency has, given the fact that the lending environment has changed tremendously over the last few years, and we are in a different competitive environment?

And given that -- or maybe there's one or two things -- you know, what's the package of changes or status quo that makes us most effective in achieving that value-add? You know, is it, you know, "This Agency is going to dedicate itself to ratcheting up the number of affordable units?" Okay, well, let's try to think about what would that look like and then what are we doing

specifically, what policies are we adopting that's going to achieve that, or we're going to achieve longer duration of affordability? Great. What's the package of changes?

I know this is difficult, but I'm just saying, I think these are the kinds of things that would be helpful, maybe, in helping the Board try to figure out these individual steps that should lead to something, should add up to something.

MS. PARKER: Let me add a further complexity to the discussion. I just was reminded that we've had this, internally, discussion over the years.

We didn't talk about it, but hopefully we did at our last board meeting when we adopted our business plan, you all will remember those parts of the Housing Assistance Trust Fund that we've committed to, you know, be used for helping to write down projects or promote public benefit.

We have had this discussion among ourselves over a period of time of whether or not, as part of reaching our overall goal of adding affordability or public benefit, whatnot, that the Agency should try to do some lending that, from a rating-agency standpoint, would help offset how risk-adverse that they -- or how risky they feel our loans are so that not everything is the

worst-case project, and essentially the rating agency is dinging us for it, that might be more -- and I don't know that this exists out there -- plain vanilla so that we might be able to get, for what we're putting into it, a reasonable rate of return that can go essentially and be recycled into our Housing Assistance Trust fund to come back as ways to -- we don't like to use this word -- subsidize, but perhaps really, I think, take on greater risk.

And so I throw this out from the standpoint of looking at what we are trying to accomplish overall, because it does go to, "Do you want to go all in this category, or do you want to have" -- we had talked about it a number of years ago perhaps helping the University of California system do some of its housing. And when we did the economics of that, we were really kind of interested in doing that because we thought it would be profitable -- again, I use those words in a special definition -- that could create additional resources for our Housing Trust Fund to go to other kinds of projects that we all feel that stronger public benefit for.

So I don't have the answer, but I add this to sort of the mix of complexities of things, that we all -- you know, I would ask you to think about that's what the

what's our niche, where should we -- the benefit that I will say, maybe just in closing, to our sister state agency, the Department of Housing and Community Development, that has to rely on General Fund support and bond funds for any kind of additional affordability or a subsidy out there in the marketplace. CalHFA raises its own capital to not only fund our business, provide the best rates we can to our customer, but at the end of the day, create and maximize those reserves that we have for additional lending or additional affordability out there. You know, that's the one thing that's unique about what CalHFA does that nobody else in state government does. We have created this business that allows us to put these resources back into it.

So while we want to be careful about profitability or all these sorts of things, we do want to do this from a way that we can continue to have X-amount of money that allows us to put downpayment assistance, special-needs housing, Habitat, HELP, whatever those kinds of things that we use those proceeds for.

CHAIR COURSON: Ms. Wynne?

MS. WYNNE: Also, I would just say the Board probably has a responsibility to take on the wrinkle of this kind of preferred borrower, and whether or not --

I understand the importance of relationships. But, you know, when you're always supposed to be directed by public -- you know, what is in the public's good, I'm not sure about giving someone a preference in borrowing because they've done business with you before, even if they have a great track record, and maybe disadvantaging an upstart. So, I mean, it's just a very interesting conversation that the Board probably ought to have at some point.

CHAIR COURSON: And I would envision that as we move forward -- sort of the follow-up to this is to have this discussion and agendize that.

Ms. Javits, if there's any other specifics that you would like to have covered, why, I think let Terri know because we certainly want to include them. Because I think we'll devote a goodly portion of our next board meeting to follow up with what they've got.

It was a terrific presentation. I know they put a lot of time in on it. I know it covered, at least exactly in my mind as a Board member what I wanted to cover after the discussion we had at our last meeting. And I think it's a great springboard to really dig in now a little deeper and to resolve some of the more pressing questions in our program.

MS. PARKER: So, Mr. Chairman, we will agendize

this.

I guess before I close it out, if these are the areas, is what we have given you so far, sufficient information for us to then come back and have you all discuss and us to answer questions in these areas? If there isn't, if anybody wants, just e-mail us.

Again, congratulations to Multifamily.

CHAIR COURSON: Thank you very much.

Bruce, thank you.

To accommodate Mr. Shine, we're going to move --

MR. SHINE: Certain people.

CHAIR COURSON: -- certain people, who soon will be named, Mr. Shine, we are going to move Item Number 9, which is the Audit Committee report to the next item on our agenda.

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Item 9. Report of the Chairman of the Audit Committee

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

The Audit Committee was given the charge to investigate and present conclusions regarding allegations that came to our attention as a result of anonymous letters received.

We have met three times: June 7th, 29th, and today at eleven o'clock here, to deal with this issue.

First of all, the issues in the letter dealt with contracting authority of the director, the process and protocol by which salary adjustments were made and recommendations made to this Board, and certain allegations in a 21-paragraph of complaints -- 21 paragraphs of complaints and comments from the anonymous letter, of which we are reviewing certain items.

As a result of that meeting on June 7th, it was decided that we would hire outside counsel to review those items, and we have done so.

Prior to June 29th, which was our next meeting, I met with Steve Nissen, a partner in the firm of Manatt and Phelps in Los Angeles, and was comfortable that he would be the right person to do that. And he has since negotiated with staff or dealt with staff in terms of providing what I understand is now a draft contract -- right, Tom?

MR. HUGHES: We have provided Manatt with a contract and we're making some minor changes. And we should have it signed relatively soon.

MR. SHINE: Good.

We also asked Tom Hughes to contact Nissen and address -- excuse me, get information from them relative to their contract with us, the commentary of

which is being passed out to you today.

So on June 29th, when we met with Mr. Nissen, we discussed at that time the scope of his work, what he would do, and what he would not do.

And now, this morning, on July 5th, here at eleven o'clock, we reviewed his scope-of-work memo, and anticipate that prior to the next board meeting, we will have a final report from the Manatt Phelps firm, which the Audit Committee will review, and then present to this Board at our next board meeting in September.

So much for that issue.

The other issue that was very pleasant this morning, we got our financial results from the audit on the Mortgage Insurance side of our operation. We have almost $65 million in a fund, in our equity fund, which is very nice to have. And we made an operating income of five million -- actually, five-and-a-quarter million dollars in the 2006 period. So I have to tell you that, as far as I can see, the insurance fund is well-funded, well-protected, and in really good shape.

Mr. Chairman, that is the scope of my comments.

CHAIR COURSON: I think it's important for the record, can you discuss the terms of the engagement of the Manatt Phelps?

MR. SHINE: Well, that contract is being worked

on now between Tom and their firm. They have given us their rates. We are going to be talking to them again about some kind of an envelope around their costs. But we have determined that it would be extremely difficult to put a realistic limit on their investigation since the scope of the allegations are of such a nature that they might take extensive investigation, interviews, and work on the part of counsel.

This is going to be an expensive endeavor to deal with the anonymous letters. And I can only tell you that we looked to find the qualified person to do the job who has been around and served not only as an attorney, but in state agencies as well. And so I'm very comfortable with what he is doing.

Do I like the fact that it probably will be a six-figure number? No, I don't like that. But I'm just pulling a number out of thin air.

And we'll probably be in a position to let you know in the next couple of weeks at least the size of the envelope, which it is not guaranteed was really the same size, depending upon how deep and how far and to what extent and how much time, effort, and energy, and how many depositions will have to occur in order to bring this matter to where I can come with the Audit Committee's consensus to the Board and bring to them our

conclusions.

CHAIR COURSON: Questions? Comments from Members of the Board?

(No audible response)

CHAIR COURSON: Okay, thank you.

MR. SHINE: Thank you, Mr. Chairman.

CHAIR COURSON: We will now go back to regular order.

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Item 7. Resolution 07-17, Conflict of Interest Code

CHAIR COURSON: I think our next item is number 7, which I think Tom Hughes, our general counsel, is going to talk about. And I think we have a report in your book that is page 219.

MR. HUGHES: Thank you, Mr. Chair.

This is really a routine, technical housekeeping update.

The Agency, as all state agencies do, has a Conflict of Interest Code which is required by California's Political Reform Act.

Essentially, what our code does, is it designates the people within the Agency who need to file the statement of economic interests, which is commonly known as the beloved Form 700.

We define in our Conflict of Interest Code the

disclosure requirements based on the nature of the positions within the Agency and what their job duties are.

The Political Reform Act requires that, from time to time, when we update, change, delete positions within the Agency, that the Conflict of Interest Code be amended to conform to those changes.

So we have had a number of changes in positions. And this item simply reflects the addition of those positions, and reflects any modifications that are based on what the duties of those positions are.

So we are requesting the approval of the Board to get the amendments to the Conflict of Interest Code enacted.

CHAIR COURSON: Are there any questions of -- Tom, I think we -- new board members, we've been through this before. Every couple of years we revisit this issue.

Are there any questions?

(No audible response)

CHAIR COURSON: See you, Jack.

(Mr. Shine left the meeting room for the day.)

CHAIR COURSON: There's a resolution on page 222. Is there a motion to approve that resolution?

MR. DAVI: So moved.

CHAIR COURSON: Mr. Davi moves.

Is there a second?

MS. JACOBS: Second.

CHAIR COURSON: Ms. Jacobs seconds.

Is there any further discussion?

(No audible response)

CHAIR COURSON: Any comment from the public?

(No audible response)

CHAIR COURSON: Let's call the roll.

MS. OJIMA: Thank you.

Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits?

MS. JAVITS: Yes.

MS. OJIMA: Ms. Wynne?

MS. WYNNE: Yes.

MS. OJIMA: Mr. Shine?

(No audible response)

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: Resolution 07-17 has been approved.

CHAIR COURSON: Great. Thank you.

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Item 8. Report to Board re New Building Strategic Project

CHAIR COURSON: The next item on our agenda is, as those of you who were here at the last couple of board meetings - actually, longer than that -- we have talked about the soon-to-expire lease on our existing space.

As you know, we are now scattered between two different locations in the old Senator Hotel, and then also in the newer building down the street. And that lease is coming up within a couple years. It is obviously yeomen's task to find new facilities.

And so the staff has undertaken a process to start the process that will lead us into some proposals for new office space for CalHFA as we enter into 2009.

Steve, as you all know, I think is going to make a presentation.

We have handed out to you -- there is a handout, the Sacramento office consolidation information, for your review also.

MS. PARKER: There's also handed out for you information on the consultants that we have hired,

CresaPartners. That should be at your table, too.

Anyway, if anybody doesn't have that, I will give them my copy.

CHAIR COURSON: Did everybody get the second -- I'll take your copy.

MS. PARKER: All right.

MR. SPEARS: Thank you, Mr. Chairman, Members. My name is Steve Spears. I'm the chief deputy director.

And as the chairman has mentioned on a couple of occasions, at least, we've briefed you on the progress of talks, negotiations, a review of options for consolidating the Sacramento office locations.

And we've hired a firm, CresaPartners, which we'll go through that process in just a minute, as we announced in the November '06 meeting.

We've collected a significant amount of information. And we feel that the time has come where we need to brief the Board on the information that we've received about what kind of facility that we need, what the Sacramento market is like, and information about whether we should continue to lease, whether we should go for an ownership option. But we're ready to bring this information to you now.

Today, what we would like to accomplish is some Board consensus and some guidance for the staff and for

Cresa on direction from here on out. Please ask questions anywhere along the way.

And before we get started, though, I have to give credit to Linn Warren and Jackie Riley, who have helped tremendously in this process and worked directly with Cresa on a number of different steps.

The staff recommends for overall goals and objectives for a facility, that we consolidate into a single Sacramento location. We believe that this will improve adjacencies, to increase functionality between divisions. Right now, we're split up. And we'll talk about our current situation in just a minute. That we should thoughtfully design facilities for training, meetings, work areas to foster collaboration, and increase productivity. That we should utilize green building standards for a sustainable facility. And that whatever option that we take should have a positive financial benefit to the Agency.

MS. JACOBS: Do you want to tell me what that means, a "positive beneficial financial benefit" to the Agency?

MR. SPEARS: We would like this to have a net present value -- positive net present value of one option over the other. If the lease is going to cost us one number and ownership is going to cost us less --

MS. JACOBS: Like a comparative positive number?

MR. SPEARS: On a comparative basis; right.

MS. JACOBS: I thought somebody was going to pay you to rent their space?

MR. SPEARS: That would be a wonderful option. We don't have that on here.

Objectives for today, for the Board meeting: We'd like to brief the Board on our current facilities.

Many of you are very familiar with our situation. Carla is new. We should probably have a quick review. Then we'd like to take you through steps that we've taken to date and talk about process a little bit. And the folks from Cresa are going to take you through a lease-versus-ownership analysis.

But in the end, what we'd really like to accomplish is that we'd like to reach Board consensus on the following:

Is it your desire to consolidate Sacramento office space?

What is the best financial alternative, in your opinion?

What are your sustainable goals for the facility?

What's our timeline? And we'll get into that

in a little more detail.

And, you know, what do you need in the way of information analysis for the future decisions that we're going to need from you?

So that's the game plan for today.

Let's just quickly review where we are and the current situation. I think we've talked about this before. But we are located in Sacramento in two different locations - really, more than that, if you break the Senator Hotel location down into the multiple floors and office suites that we have. But we lease about 60,000 square feet on seven floors in the Senator Hotel, right next door, and at the Meridian Building, the other way, 30,000 square feet on two floors. Both leases expire in August of 2009, thanks to the good work of Jackie Riley and her staff. And we have the flexibility to extend all leases up to one year.

Current law restricts our location to the City of Sacramento.

We have posed the legislative concept to broaden that area, for example, to include West Sacramento. But that was not approved by a BT&H agency. So we've proceeded on the assumption that we'll be within the city limits of Sacramento.

Here again, it's pretty obvious, but if you

visit the Senator Hotel locations, we have office suites on multiple floors, they're not connected. You know, functionality just does not exist. And with regards to the Senator Hotel, we lack room for expansion and growth and that sort of thing down the way.

One of the biggest concerns that we have, though, is safety and security in both locations. And we've talked to you about upgrading this. But still, it's not the best for employees, for employees' property, for the property of the Agency, for the files and the notes in the basement, which is a favorite topic of Mr. Hughes. We need a new location to improve security in that area.

So one of our first steps -- and we discussed this early on, I think in January of last year -- that we would like to hire a real estate consulting firm to help us with this process.

So in June of '06, we released an RFP. We received five responses. One firm, Staubach Capital Partners did not respond. We interviewed the other four firms.

CresaPartners was selected after that review process, in the interview process. They're a California-based firm.

I'd like to introduce Jerry Porter, who is with

Cresa in the Los Angeles office and will be the project leader for them, and Jim Neithammer, who is in the Sacramento office and will be assisting on a day-to-day basis.

Cresa is a tenant representative firm. There are not a lot of firms in this industry, so that's the reason why we didn't get a lot of responses. But we feel with their knowledge of the Sacramento market, with their experience -- and Jerry can speak to this -- with their experience in these types of projects, that Cresa will do a very, very good job for us.

They will manage the site-selection process, assist with interior design, which we've already started that process, perform financial analyses, draft and negotiate development agreements, and oversee the construction, and act as the Agency's broker.

So I think what I'd like to do now is turn it over to Jerry, have him talk about the steps that they have taken so far.

We have involved -- again, Jackie Riley and Linn Warren have been very helpful. We've interviewed the senior staff. So with that input and some additional research, Jerry has been able to conduct a number of steps, so we'll turn it over to him.

MR. PORTER: And if there are any questions up

until now, feel free.

Just a couple of points of clarification. It mentions that we're going to be doing interior design. Our business is user representation. The entire process -- the principal for our project management group, which does the design construction project management, Michael White, has been intimately involved in the early stages of this process, the first of which was we brought the management together, we did a formal visioning session. That was actually following an RFP for architectural services. We brought RMW on board. They have a local office, and they're based in San Francisco. They conducted the visioning session, so that we based the project entirely upon what the business goals of CalHFA were and are, their future vision of where they're going.

And many of these issues that were discussed today, were discussed as part and parcel to that.

That then was reduced to a more formal programming process, which I must commend Jackie, I told her earlier in the process that very seldom do I see a client that has the type of information available that Jackie had in terms of existing HR, what hiring goals were, space utilization, furniture systems. This was actually a very efficient and quick process to get to the

projected square footage over the next number of years.

The following steps were that our local team -- and we went into the market-survey phase, looking at the entire Sacramento market, focusing on the downtown market, because that's where you are now. But looking at the broader Sacramento market for lease or purchase opportunities, sites that would be developable, existing projects that were entitled and going forward, and every opportunity to lease space in the 100,000 square-foot-plus size range.

That resulted in thirty-some-odd candidates. Those were then looked at very carefully within the matrix of criteria for CalHFA.

I'd say one of the main goals is to -- and I think one of the things that needs to be factored into this, is just simply the productivity of the organization. As people are strewn across seven floors in the Senator Building and two floors in the Meridian Building, communications and productivity, simply space utilization is incredibly inefficient. All of this in the context of current rental rates that are within ninety-some-odd percentile of projected market rates in all of our analysis.

So there are no bargains in the existing facility. The space is very inefficient, and I don't

think it's a quality of environment that the organization would want on a go-forward basis.

That having been said, and with no particular bias as to whether the organization leases or owns space, we began to process and model the nominal office rental rates projected for the 2009 go-forward, and the construction costs and the available projects in the market.

We chose a fully-entitled project in the redevelopment area that had pretty accurate numbers as to its deliverability and its cost; and we have compared that to rental rates on the lower end of the 2009 spectrum, and have tried to be very conservative in the lease versus purchase analysis, including -- since we looked at a 20-year horizon for the lease-purchase analysis, we assumed that rents would be reset every ten years on a lease basis, which I think is not at a constant rate of growth. So I think we're very conservative in our assumptions.

We looked at both conventional financing and tax-exempt debt, and the net result -- and we have a summary sheet for everyone -- the net result was a savings on a net present-value basis of ownership of in excess of $20 million over the 20-year horizon.

CHAIR COURSON: Jerry, can I interrupt just one

minute, please?

MR. PORTER: Yes, please.

CHAIR COURSON: Are there, outside of needing to be domiciled in the City of Sacramento, are there any other restrictions that the Board should be aware of? I mean, own versus -- are there any other restrictions placed on CalHFA as part of the State of California?

MR. PORTER: One such restriction, and some of us see it as an opportunity, is to meet the Governor's goals with occupying a LEED silver-certified building. So I see that as a benefit and a long-term benefit. But I don't think there are any restrictions.

CHAIR COURSON: No restriction of own versus lease then? CalHFA is free to make -- the Board is free to make that decision?

MR. PORTER: To my knowledge, that's correct.

CHAIR COURSON: Thank you.

MR. PORTER: So given the fact that we have taken, I think, real-world reasonable assumptions, have modeled both the cash flow and the net present value occupancy costs, there is a significant benefit to ownership.

Part of it is, something as simple as, if you are a tenant in a third party's building, you are essentially paying property tax. That is built into the

rent. You're paying increases on an annualized basis as part of your lease contract. As a state organization, you are exempt from those on ownership. So that's probably a 30-cent a square foot savings in and of itself.

It also tends to reduce some of the risk. A number of private equity plays on buying office buildings these days are causing -- triggering Prop. 13 on existing buildings.

In your current building, if your current building owner were to sell, that building value would be reassessed under Prop. 13. That would be immediately passed through.

So any third-party leasehold you are, A, paying taxes, and B, you have that downside risk.

That having been said, it's a relatively small universe of opportunities that meet transportation issues. We have mapped your existing employee population against ZIP codes. So we have overlaid those against transportation. We know how many are taking light rail, how many are driving, how many are taking buses.

A number of the candidates had been disregarded, I guess, at this point, because of the impact on your current employee base and the transportation impact we're going to have.

You have a fairly optimum situation, being at the hub in downtown right now. And we are looking at a tighter array of buildings that would either be on light rail or be closer to your current location in the hub.

There are very few of those alternatives.

We are not asking for approval on any buildings. We're simply trying to bring everybody up to speed as to what process has been undertaken, give everyone the benefit of our assessment that you would be materially benefited financially by ownership, given the right building that might fit the right matrix of your decision criteria.

The default is always to simply renew the leases or go to a leasehold solution ultimately.

If we are going to access an opportunity of ownership, and particularly on a build-to-suit, the lead time is such that we really need to prosecute that by the end of the year. And we would like to propose that by September, we are able to go to non-binding negotiations with a short list of candidates, such that we can refine the economics of the numbers that we're right now modeling, and come back to the Board with a shorter list of candidates with much more accurate information.

At that time, if there are purchase opportunities that would then require the two-year window

that we have, we might want to raise the urgency.

If those turn out not to be available or not to be economic, our default is always to continue to be in the lease market.

So we're not putting anything on the table that has to be dealt with to put any pressure on anybody, but we would like to ask your permission to continue the process, negotiate with a short list of people.

We, following our survey, went out with a request for information to the development community and the brokerage community at large. It got picked up in the local business journal, which has also resulted in some additional submittals. We're pretty confident at this point that we have, if not every potential property, we have pretty close to every potential property identified.

So that's kind of our current state of the art.

And I think the key is just that -- I think, actually, our lease expiration is in 2010, but we have a 120-day cancellation rate without penalty prior to that. So our target was the fall of '09. And our default is, if we were to be able to build to suit, the LEED certification can add time, other things can add time. We have a bit of a safety valve time-wise with that cancellation right.

MR. SPEARS: If it's a lease that you want to do, that can be done on a shorter timeline, and a decision doesn't have to be made during 2007. That could be made later.

So the next steps then would be -- first of all, we'd like to understand, are there unique things, specific things that you would like to see, information that you would need beyond the ordinary due diligence that Cresa and the staff are going to go through to prosecute these different alternatives?

So the steps would be, today, some Board consensus on these items. And that will give us some guidelines. And we'll talk about that, those consensus items on the next slide.

But at the September board meeting, as early as that, we could come back and say, we've identified, you know, a site, or at least a short list that we'd really like to get serious with, assuming the ownership option is chosen. And if you do select a site after discussions with the general counsel, you are permitted to go into closed session and discuss, and potentially approve the development contract, or at least discuss negotiation strategies at that point, in a closed session. But you have to select -- if I'm right, Tom -- you have to select a site before you can go into closed session and

negotiate, or talk about negotiations.

MR. HUGHES: The Open Meeting Law permits the Board to meet in closed session to give instructions to a real estate negotiator. One of the requirements is that the site be publicly identified. So once we have a site or multiple sites identified, the Board can meet in closed session to give direction on the terms of the negotiation.

MR. SPEARS: Are there questions before we move on to the next slide, which will contain our little list of --

MS. GALANTE: I have a question. In terms of ownership versus lease, in the calculations we have a summary in that bar graph. How much of a sensitivity analysis was there done on variable land costs and variable construction costs, or how much padding did you put in that $400-a-square-foot construction cost? Because costs are going up 10 percent a year, kind of at a minimum. So you could wipe -- you know, if you're not accounting for that, you could wipe out some savings pretty quickly.

MR. PORTER: That's a great question.

The $400 was actually predicated on a current development, who gave us our development numbers. We then begged -- I think an all-in, including moving costs

and FF&E, $120 a square foot for tenant improvements, moving, and FF&E, which I think is a conservative number.

We do expect there might be some incremental costs for LEED certification, because it was not planned in this project.

In answer to your sensitivity analysis question, I ran a sensitivity analysis at the existing proposed rental rates that showed that you can pay upwards of almost $600 a square foot before those lines cross and it breaks even.

Now, the obvious problem is, you don't have the reversion at the end of the term, you can't substantiate the resale price.

And what we've done is taken a $400 start price, all-in TI's, and I think we incremented at 1 percent over a 20-year life -- 1 percent annually. And the market has been significantly higher than that. So there appears to be a lot of head room in the analysis.

One of the other things that we did was we made the lease numbers quite conservative, starting at a $3 rent, with a 3 percent annual escalator, which is the low end of market. We then reset the rent to 3.40 at the beginning of the eleventh year, and reescalated that.

And the likelihood that rents are only going to increase 10 to 12 percent over that ten-year horizon,

given all the factors in the market today, again, I think these numbers are conservative, they're not based on actuals.

There is a range here, and it may be that, even though we can beat rental on a purchase, that building cost may put us in a zone where we may want to decide that, no, we don't want to spend $500 on a building because we can only sell it for $400 in 20 years, and that undercuts us. But there's a lot of room in this analysis.

MR. SPEARS: One other issue, Jerry.

In your analysis, I think some of the Board members may be interested in how much equity the Agency puts in, if there's an ownership?

MR. PORTER: The cap-ex.

The proposed capital expenditure on a straight lease, assuming a $50 tenant-improvement allowance and $120 out-of-pocket for all relocation costs, is on the order of 7 to 7 and a half million dollars.

The proposed cap-ex on conventional financing, an 80 percent loan, 7 percent, with 2 percent loan fees, is 10.8. So there's an incremental $3 million, that the net cash flow savings in the first year is almost two over from lease to purchase on the annualized cash flow.

In the event you can do tax-exempt financing of

the cap-ex, because of the higher loan-to-value, we assumed a 90 percent loan-to-value on the tax-exempt -- the cap-ex goes down to under $4 million.

So you can be -- I believe for a modest additional capital investment, you can be in the conventional financing world and recover that in a very short period. If you can go to tax-exempt, it's, dare I say, a no-brainer, financially.

MR. SPEARS: So, Mr. Chairman, I guess what this leaves us with, if we can back up here, is we need some guidance from the Board, consensus, if you will.

And if there are any questions before we go through this process -- I'm not sure if we're asking for formal action or not. But I think what the CresaPartners firm is asking for is permission to go out and talk to a limited group of folks, a limited number of opportunities, and engage in non-binding negotiations; get serious with several opportunities. Fine-tune the numbers in this analysis, and then come back in September with a further report or a specific piece of property that looks like a very good opportunity for the Agency.

CHAIR COURSON: It seems to me that the basic discussion at this point is the Board's willingness to consider lease versus ownership or both. But, I mean,

clearly as Jerry -- as they move forward, they need to have a sense as to whether the Board would consider ownership, build or buy, or is there a bias towards build or buy, as something this Board would be interested in considering. Because clearly it's going to make a huge difference on how we move forward.

And I don't know if that's a decision we have to -- Jerry, I'll ask you, is that a decision we have to make today? But clearly, depending on the timeline, if, in fact, build versus buy is in the mix, it probably is something that you can't wait until September to at least get a sense of the Board as to what they'd be willing to consider as an alternative?

MR. PORTER: Correct. And I think it's not so important that the Board decides -- I guess if the Board feels that ownership is completely out, then that mandate would be an important one.

If the Board feels that ownership is a consideration, then I think it just simply authorizing us to go fine-tune the numbers and come back to you for a decision.

The timing issues really get to be about, we have two pretty highly deliverable, if you will, opportunities, one of which will very likely go away if we don't show serious interest. The second may or may

not turn out to be available.

So green-lighting us to go into further discussions just simply preserves that opportunity as opposed to necessarily anointing or adopting that opportunity.

CHAIR COURSON: I would ask the Board for your thoughts of consideration of build or buy.

Mrs. Jacobs?

MS. JACOBS: I think at this stage, I would like to be flexible and look at all options.

CHAIR COURSON: Okay.

Does anyone else have any strong feelings one way or another?

MS. WYNNE: I'd have, I guess, just one question, and that is, if CalHFA does bond financing, does this figure push us up against any kind of limit? In other words, does this take money out of other projects CalHFA might be financing that would put people in homes or --

CHAIR COURSON: I guess -- if we own, build or buy, and use tax-exempt, is that in any way diminishing our bond tax-exempt availability for projects for single-family?

MR. SPEARS: That's a very good question.

We would be issuing tax-exempt bonds under the

authority that we have as a government entity, the tax-exempt bonds that we issue to finance homes or under the Mortgage Revenue Bond laws would not be affected by this.

CHAIR COURSON: On the Multifamily side?

MR. SPEARS: The same.

MS. PARKER: One thing to add to that. Again, I think this goes back to the discussion I was having earlier on. Since everything for us comes out of, at the end of the day, one pot of money, to the extent that we have the ability to control our operating budget, then because the operating budget is funded out of sort of -- it's funded before we end up with our Housing Assistance Trust Funds, but it comes out of our reserves. So to the extent that we have the ability to, over the years, reduce or not grow as great the increase for our operating budget coming out, because of the rents that we would pay through lease or ownership, that essentially would provide greater -- to the extent we have profitability, greater resources available for our overall public purpose.

I think that's what we had been trying to get at here, is, you know, this -- all of this is ways that we've been looking at to try to cap or control our operating expense budget so that we have more funds on

the enterprise side.

MR. PORTER: And to build on that just a bit, I think the other -- what my private-sector corporate clients look at in a situation like this, when they own a type of asset like this, is that there also is always the availability of sale-leaseback, sometimes at significant profits.

So the fact that you've got a slightly higher capital expenditure going in, once this building is complete, with the Agency as an anchor tenant, as a net investment, single tenant sale-leaseback opportunity, these types of buildings can make your capital available to you; and most often, with substantial profit, at any time that you want to reaccess that capital.

MS. JACOBS: But then you don't have the same property tax advantage unless you sell it to CalPERS.

MR. PORTER: That is correct. It is kind of going backwards.

CHAIR COURSON: Mr. Carey?

MR. CAREY: Well, I'd certainly lean towards ownership for the points that Terri makes of long-term stability, effective use of resources, I think ownership would be highly preferable, in my mind.

CHAIR COURSON: Ms. Javits?

MS. JAVITS: I just want to applaud the

sustainability goal, and ask, do we have time -- is there time to build? And I may have missed that but --

MR. PORTER: Yes. And we are not so resolved as to which project. But at least one of our choices is going to build with us or without us. We have time to impact that project.

Another opportunity is a fully-entitled location that, within this two-year window, we have substantially enough time within the slightly longer window, to 2010. We certainly can do it.

I think there's a motivation to solve the environment of the organization sooner rather than later. There are some risk factors. There's a server room in the basement of -- I don't know how old that building is, but it's quite an old building. And I'm from Southern California, but I think you guys have floods every hundred years or two. And just the operational risk of -- if it's on the first floor, we might argue about how high the water goes; but basements sometimes can be higher risk factors.

So I think the goal is to try to accommodate delivering a building as quickly as possible, and we have a little bit of leeway, time-wise.

MR. SPEARS: Well, there are a lot of goals. Safety and security of employees and property is number

one. On a day like today, when we've got employees carrying files back and forth between these two buildings, this is just a completely unacceptable situation. So we would really urge -- and I guess what I'm hearing from most of the Board members is that item number one, you know, getting us all under one roof is a no-problem consensus item.

MS. PARKER: Let me just -- I feel the need to say this. We had a lot of discussions -- you know, the work that's been done on this has gone on for well over a year, and we have tried to be very -- a tremendous amount of due diligence, so that we're going step by step by step through a process. So that from that standpoint, all of you can see step by step what we have done. We have not rushed to anything. We've done the consultant -- you know, we've done all these things that we feel like is what the standard that you would hold us to.

We had this discussion about whether we were going to bring this item to you today. There's obviously been a lot on this agenda.

While we want to, you know, move this project along, because of the timelines on it, I do not want anybody to feel like in any way that we were pushing you, that you are being forced to make a decision without time

to be comfortable with this, because I don't want anybody to come back in a month or six months and feel that they didn't have the comfortability that they would have liked to have had.

MR. CAREY: At the same time, we have time frames that we have to meet. And we, as a Board, can't drag it out because we've got leases expiring. And if we want choices, we have to make the choices while we still have them.

I'd like to make one other point on the issue of sustainability. Not to be overly practical, but I think it would be looking at the cost trade-offs as we look at that, because how we spend our money is where we make choices of how to spend our money.

MR. PORTER: The challenge there is just the operational economics of a green building over a 20-year life are yet unknown. Some -- we can quantify the incremental costs to get to a silver or other certified LEED building.

Some of the energy efficiencies we can quantify. What's still left to the imagination is the productivity, the sick days, the overall well-being, and not to mention the fact that 48 percent, I think, of greenhouse gases are produced by buildings. So as I've read this morning, it's become a moral imperative.

But it is very difficult to quantify the pure economics of the green sustainability, but we will do our very best.

MS. PARKER: Let me say one other thing in here, and I think I've said this in the past, but Jerry will recall this when we had these discussions about selecting our consultant on this, that we wanted to be very mindful of what kind of -- if we went to a build situation -- that we built an appropriate building for ourselves or headquarters for ourselves, but that we did not see perhaps the example that has been done by some of our sister state agencies as the model that we wanted to adopt. We wanted to have -- we don't want the Cadillac; we want a good, dependable Chevy.

MS. GALANTE: We want the Prius.

MS. PARKER: So we have had those discussions from that standpoint. And I've told them that I don't want anybody to think that what maybe other entities in state government have done is the philosophy and desire of this particular board.

MS. GALANTE: You know, I haven't weighed in here yet. And I agree with what I've heard from everybody that we should stay open to ownership. And I've heard some people prefer it, and I certainly see why.

You know, I would want to stay really mindful of what that economic analysis is going to show, and caution that, you know, those numbers have a way of getting away from you.

And when you lease, you lease, and you know what the numbers are. And when you build, we're becoming developers, you know; and there are risks in that. And so I think just understanding what cushions are built into those numbers as we move forward is going to be really important for me.

MR. PORTER: We agree.

CHAIR COURSON: Mr. Davi?

MR. DAVI: I just want to echo that comment. I think our idea that we're all talking about here being open and keeping opportunities available to us when we have to make a final decision is a good one.

And clearly, the only thing in front of us today, if there's anything to be decided upon, is should we should we allow the agent to start non-binding discussions with some potential sites.

And I would say and move that we go ahead and do that, provided that it is non-binding and that we still have the options before us, at subsequent meetings, to elect to lease or to determine that we don't want to buy. That's where I would suggest that we go at this

point.

CHAIR COURSON: Well, I gather a consensus from the Board that we want Steve and Cresa to go forward and take a look at all the alternatives that are on the table.

But clearly also, I think you'll see there's a mix here as to should we lease, should we buy, build, or so on. And, obviously, the economics of all that, in the best interest of CalHFA, are going to be key.

And I would assume that that will take up then a substantial part of our September deliberations on this because, Jerry, you'll have some of that information for us.

MR. PORTER: Correct.

CHAIR COURSON: Anything else from the Board?

Was there a handout, Jerry? Did you say there was a hand out?

MR. PORTER: I have the executive summary on the lease purchase analysis available.

MR. DAVI: I'd love to see that. Can I have a copy of that?

MR. PORTER: I have a copy for everyone.

CHAIR COURSON: There's a copy for everyone, so you'll have that when we leave.

MS. GALANTE: It's time to go.

CHAIR COURSON: Yes, time to go.

MR. PORTER: Thank you very much.

CHAIR COURSON: Thank you very much. We appreciate you coming up.

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Item 10. Closed Session

CHAIR COURSON: Item 10, the closed session, we will not have a closed session, nor is there a need for one today.

--o0o--

Item 11. Reports

CHAIR COURSON: The reports are on page 229. And clearly, if you have any questions, I'm sure Bruce would be more than happy to answer them at your convenience.

Item 12. Discussion of Other Board Matters

CHAIR COURSON: And having said that, is there anything else to come before the Board?

(No audible response)

--o0o--

Item 13. Public Testimony

CHAIR COURSON: And I have no notice, so is there any public testimony?

(No audible response)

CHAIR COURSON: And seeing none, don't forget,

I have parking credits up here. And our next meeting is in Burbank on September the 12th.

Thank you all for making the effort to get here today.

Carla, thank you for joining us.

John, Pat, thank you for joining us.

And we'll stand adjourned.

(Meeting adjourned at 4:30 p.m.)

--oOo--

REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 10th day of July 2007.

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

State of California

MEMORANDUM

To: Board of Directors **Date:** August 9, 2007

From: Theresa A. Parker
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Supportive Housing Lending Program – Corporation for Supportive Housing

Action Requested

Approve Corporation for Supportive Housing's request to use $10 million in CalHFA Housing Agency Trust funds that were set-aside in the budget to support homeless/special needs loan programs.

Request Summary

In accordance with the Agency's mission to support affordable special needs housing, CalHFA Multifamily Programs set-aside in its budget a total of $10 million dollars for a direct/indirect loan program to nonprofit organizations in support of special needs (supportive housing) lending programs. The Corporation for Supportive Housing has requested the entire $10 million dollars for their special needs acquisition/predevelopment loan programs. The $10 million will be divided between two loan programs. A maximum of $8 million will be used for a Los Angeles loan fund and a minimum of $2 million will be used to provide financing in San Diego and San Francisco.

The Corporation for Supportive Housing (CSH) is a national, nonprofit organization that helps communities create permanent housing with services to prevent and end homelessness. CSH provides technical advice, development expertise, and makes loans and grants to supportive housing sponsors.

No other request for the CalHFA special needs supportive housing funds has been received.

CalHFA Loan Terms

Amount:	$10 million.
Type of Funds Requested:	Housing Assistance Trust funds.
Maturity:	5 years; one (1) five year extension at CalHFA option.
Origination Fee:	None.

Interest Rate:	2.7% fixed for 5 years.
Extension Interest Rate:	3.5% fixed.
Payments:	Interest only, paid quarterly.
Eligible Uses:	To fund acquisition and/or predevelopment costs associated with supportive housing projects in the State of California.
Security:	Full-Recourse to CSH (CalHFA will look solely to the assets of CSH for repayment of the loan); CSH will maintain a loan loss reserve equal to 10% all loans outstanding in the loan fund. The Los Angeles Housing Department is providing a forgivable loan for the loan loss reserve. (CalHFA will have no security interest in the in any of the loans or the loan loss reserve and no CalHFA Regulatory Agreements will be recorded on any property. CalHFA loan requirements and default provision will be included in the CalHFA/CSH Loan Agreement.)
Monitoring:	The borrower will be required to provide quarterly reports which include project pipeline, commitment, loan terms, status, and any special loan considerations. If after 36 months funds remained uncommitted those funds will be returned to CalHFA upon agency request.

CSH Loan Program Description

Loans made by CSH to project sponsors, will typically range from $75,000 to $2 million (maximum loan amount $3 million) and will have terms up to 36 months (typically less which will enable CSH to recycle the loan funds). CHS may have a loan term longer than 3 years as long as it does not exceed term of CalHFA loan commitment to CSH. An origination fee of 1.5% (maximum of 2%) of loan amount will be charged, and a subsequent 6%-7% (maximum of 7.5%) deferred simple interest will be payable at maturity. Loans eligible for funding under the Supportive Housing Loan Fund will be to fund acquisition and/or predevelopment costs related to the development of supportive housing located in California communities that target at least 25% (but no less than 20%) of the units developed to individuals and families who are homeless, have special needs (mental health issues, substance use issues, HIV/AIDS) or are otherwise considered "at risk" of becoming homeless. Projects that target the chronically homeless will be prioritized. The loan can be either secured or unsecured.

The $30 million Los Angeles loan program currently known as the Supportive Housing Loan Fund of Los Angeles has been already created and partially funded. The pooled funds will be held at Chase Bank in an account restricted for the Los Angeles Loan Fund. CalHFA will require its funds be held in a bank with a California branch (probably Bank of America). CalHFA will have security interest in the account.

Capitalization of Los Angeles Fund

	Amount	Interest	Status
Fannie Mae	$8,000,000	5.0%	Funded
US Trust	1,500,000	3.0%	Funded
US Bank	1,000,000	3.5%	Funded
HSBC	2,500,000	4.0%	Pending
Hilton Foundation	1,000,000	2.0%	Funded
CSH National	3,000,000	2.7%	Funded; includes funds from BofA & Wells Fargo
LAHD	5,000,000	0.0%	Pending
CalHFA	8,000,000	2.7%	Pending
Total	$30,000,000	3.0% *(blended rate)*	

The San Diego/Bay Area loan fund is still under development. It is expected to have at least $10 million in its loan fund.

CSH Background

The Corporation for Supportive Housing was established in 1991 with funding from three of the nation's leading philanthropies – the Pew Charitable Trusts, Robert Wood Johnson Foundation, and the Ford Foundation – to support the individual efforts of local nonprofit pioneers developing service-supported housing for those most in need. CSH is a national intermediary organization that provides financial and technical assistance to not-for-profit organization engaged in the development of service enriched housing for populations with low and moderate incomes or special needs, including persons with AIDS and other individuals with chronic mental and physical disabilities.

CSH delivers its core services primarily through eight geographic hubs: California, Illinois, Michigan, Ohio, Minnesota, New Jersey, New York, and Southern New England (Connecticut, Rhode Island). CSH also operates targeted initiatives in Kentucky, Maine, Oregon, and Washington, and provides limited assistance to many other communities.

In California specifically, CSH provides technical assistance to the California State Department of Mental Health (**DMH**) including its' Mental Health Services Act Housing Program, which CalHFA will administer on behalf of DMH. In addition to working with DMH, CHS works with County Mental Health Departments and developers to increase supportive housing efforts throughout the state. CSH via its loan fund and its other work throughout the state will find itself in a unique position to further its goals of increasing supportive housing by assisting counties and developers finance acquisition/predevelopment activities of supportive housing projects.

CSH currently administers a $37.5 million national loan fund to make acquisition and predevelopment loans primarily in its 10 program sites around the country. Since inception in 1991, CSH has committed nearly $119 million in loans and grants to support the creation of 17,318 units of supportive housing, with an additional 11,882 units in its pipeline. In California,

CSH has made over 46 loans, totaling $15 million to supportive housing providers across the state.

Based on CSH's December 31, 2006, audited financial statements CSH had $15 million in cash and cash equivalents plus an additional $10.4 million in investments (current assets) with total assets of $63 million and total liabilities of $22 million. Net assets were $41 million ($11.7 unrestricted and $29 million restricted).

Recommendation

Approval of the loan to CHS is recommended. CSH is an experienced, respected, and well qualified nonprofit organization in providing lending and technical assistance to supportive housing developers. CSH has experience in acquisition and predevelopment financing for affordable supportive housing projects. This type of financing is vital to the continuing development of affordable supportive housing projects and it is a financing niche which is better served by CSH and supported by CalHFA due to its unique credit risks.

RESOLUTION 07-19

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a request on behalf of Corporation for Supportive Housing, a non-profit corporation (the "Borrower"), seeking a loan, the proceeds of which are to be used to provide financing to fund acquisition and/or predevelopments costs associated with supportive housing projects in the State of California (the "Loan"); and

WHEREAS, the request 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, on July 23, 2007, the Executive Director exercised the authority delegated to her under Resolution 94-10 to recommend to the Board of Directors that the Board approve the Loan; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined to approve the Loan;

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 commitment letter, subject to his/her recommended terms and conditions set forth in the Staff Report, in relation to the Loan described above and as follows:

LOAN TERMS:

Amount:	$10,000.000
Type of Funds Requested:	Housing Assistance Trust Funds
Maturity:	5 years; one (1) five-year extension at CalHFA option
Origination Fee:	None
Interest Rate:	2.7% fixed for 5 years
Extension Interest Rate:	3.5% fixed
Payments:	Interest only, paid quarterly
Eligible Uses:	To fund acquisition and/or predevelopment costs associated with supportive housing projects in the State of California

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 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 07-19 adopted at a duly constituted meeting of the Board of the Agency held on August 9, 2007 at Sacramento, California.

ATTEST:_____
Secretary

State of California

MEMORANDUM

To: Board of Directors
California Housing Finance Agency

Date: July 27, 2007

From: Theresa A. Parker, Executive Director
California Housing Finance Agency

Subject: MHSA Housing Program Update

I have attached an update on the Mental Health Services Act (MHSA) Housing Program for which the Agency will begin accepting applications on August 6. As we have discussed on several occasions, the development of this program is the result of a joint effort on the part of CalHFA, our sister agencies – the Housing and Community Development Department and the Department of Mental Health – and county mental health organizations.

At the September Board meeting we will bring agenda action items seeking loan approval authority for the Agency. We will propose using the same approach to loan approvals as we have used for the Bay Area Housing Plan.

Attachment

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Introduction to the MHSA Housing Program

The California Department of Mental Health (DMH) and the California Housing Finance Agency (CalHFA) are pleased to announce a new housing program under which up to $75 million in Mental Health Services Act (MHSA) funds will be allocated each year to finance the capital costs associated with development, acquisition, construction and/or rehabilitation of permanent supportive housing for individuals with mental illness and their families, especially including homeless individuals with mental illness and their families. The MHSA Housing Program will also make available up to an additional $40 million per year in capitalized operating subsidies. Eight percent of both capital funds and capitalized operating subsidies, currently estimated at $9.2 million annually, will be set aside for small counties to ensure that the program addresses their unique needs.

Executive Order S-07-06, signed by the Governor on May 12, 2006, mandated development of the MHSA Housing Program, with the stated goal of creating 10,000 additional units of permanent supportive housing for this population. The program will be jointly administered by DMH and CalHFA. During the application review and evaluation process, CalHFA will underwrite requests for capital funds and capitalized operating subsidies, while DMH will evaluate each applicant's proposed target population and supportive services plan. Once funds are awarded; CalHFA will oversee all housing and financial aspects of the project and DMH will oversee provision of services, including continuing assessment as to whether the target population served continues to meet MHSA Housing Program requirements.

Funds provided under this program must serve the MHSA Housing Program target population as specified in the Executive Order and defined in further detail below. Capital funds may be used for either Rental Housing Developments or Shared Housing Developments. For Rental Housing Developments, applicants will also be required to obtain capital funds from a range of programs administered by other agencies including, but not limited to, the Department of Housing and Community Development (HCD), CalHFA, the Tax Credit Allocation Committee (TCAC), localities, and the federal Department of Housing and Urban Development (HUD). However, for Shared Housing Developments, funds from this new program may be used to cover all capital costs up to the funding limits specified in this application.

While the MHSA Housing Program application process, as described in this application package, is the same for both large and small counties, a more flexible process is available to small counties applying for program funds. Specifically, small counties may request exceptions from the various requirements of this application. In addition, enhanced technical support will be available to small counties upon request, to assist them in completing the application process. Section 2.16, Small Counties, provides further information on the application process for small counties.

The MHSA asks the State of California to transform the way in which it has delivered mental health services to individuals with serious mental illness. Over the past decade or more, this transformation had already begun through the implementation of several pilot programs, each with the goal of moving beyond the mental health clinic setting to offer a much wider array of services and supports to consumers in community settings, enhancing their recovery efforts and their opportunities for independent living.

The MHSA Housing Program embodies both the individual and system transformational goals of the MHSA through a unique collaboration among government agencies at the local and State level. The partners in this system collaboration include CalHFA and HCD, with their housing and financial expertise; DMH, with responsibility for overseeing the mental health system and ensuring that consumers have access to an appropriate array of services and supports; and county mental health departments, which have ultimate responsibility for the design and delivery of mental health services and supports throughout the State. Through this collaboration, the MHSA Housing Program will continue to transform the mental health system, offering consumers housing and supportive services that will enable them to live more independently in our communities.

The program makes permanent financing and capitalized operating subsidies available for the purpose of developing permanent supportive housing, including both rental housing and shared housing, to serve persons

with serious mental illness who are homeless or at risk of homelessness and who meet the MHSA Housing Program target population description. A total of $400 million has been set aside for initial funding of the program. This amount will fund both capital costs and capitalized operating subsidies. However, the State intends to continue funding the program on an ongoing basis at the levels described in Section 1.0 above as long as the Mental Health Services Act continues to generate sufficient revenues.

DRAFT MENTAL HEALTH SERVICES ACT HOUSING PROGRAM TERM SHEET

Program Description	The **Mental Health Services Act Housing Program (MHSA Housing Program)** offers permanent financing and capitalized operating subsidies for the development of permanent supportive housing, including both rental housing and shared housing, to serve persons with serious mental illness who are homeless, or at risk of homelessness (as defined by the MHSA Housing Program), and who otherwise meet the MHSA Housing Program target population description. This program is jointly administered by the California Housing Finance Agency (CalHFA) and the Department of Mental Health (DMH).
Permanent Loans	• The MHSA Housing Program will fund one-third of the costs of a Rental Housing Development up to a maximum of $100,000 per targeted unit ("apartment"). Amounts over $100,000 per unit, up to one-third of total development costs per targeted unit, will be considered on an exception basis, if requested by the county. • The MHSA Housing Program will fund all of the costs of a Shared Housing Development up to $100,000 per targeted unit ("bedroom"), provided that each bedroom is restricted for rental to a tenant who meets the target population definition. Developers will not need to supplement MHSA Housing Program funds with other capital sources in Shared Housing Developments unless the costs exceed $100,000 per bedroom. • Interest and principal payments will be made from net cash flow (residual receipts). The payment of unpaid interest and principal will be due and payable upon completion of the loan term. All residual receipts payments received by CalHFA will be credited to the development and deposited back into the respective county's sub-account, to be used as additional operating subsidies for the development, if needed, or if not, for future projects. • Permanent loan proceeds will be available at construction loan closing or permanent loan closing, at the election of the borrower. • Permanent loan proceeds may be used for all costs associated with the acquisition and development of the property, including reimbursing the developer for predevelopment costs and acquisition costs. Permanent loans will be secured against the property and the improvements. • MHSA Housing Program permanent loan limits will be based on the number of units restricted to the target population and not on the total number of units in the proposed project. • MHSA Housing Program loan funds may trigger prevailing wage requirements if used to fund construction. Applicants are advised to consult their attorney on this issue.
Rates and Terms	• An administrative fee of 0.42% of the outstanding principal balance shall be due and payable annually. This fee shall be paid to CalHFA for administrative services. • Interest and principal payments will be made from net cash flow (residual receipts). • The interest rate on Rental Housing Developments will be fixed at 3% but may differ if tax credits are involved. When tax credits are involved, interest rates may be set lower than 3%, provided the applicant demonstrates that an interest rate reduction is necessary for tax-related reasons. • Interest rates on Shared Housing Developments will be fixed at 3%.

	• The loan term for both Rental Housing Developments and Shared Housing Developments shall be 20 years, or longer if required by other funding sources or if tax credits are involved. Upon the request of the Developer, the loan term may be extended to up to 55 years. The Developer may request an extension of the loan term in its application or at any time prior to final commitment of the loan. The Regulatory Agreement shall be extended to match the longer loan term. • Accrued interest and principal will not be forgivable at maturity for developments that have received an allocation of low income housing tax credits. • Accrued interest, but not principal, may be forgiven at maturity for Shared Housing Developments and Rental Housing Developments that have not received an allocation of low income housing tax credits if 1) the property was used in accordance with the MHSA Housing Program guidelines throughout the loan term; 2) the loan term is extended for a time period to be determined by CalHFA; 3) the Regulatory Agreement is extended for the term of the extended loan; and 4) adequate provisions are made for the continued use of the targeted units for the MHSA Housing Program target population. Alternately, accrued interest may be forgiven if the property is sold at maturity and the sale proceeds are invested in a property that has a like use and is encumbered by an MHSA Housing Program Regulatory Agreement, and the new note/deed of trust is in the amount of the original MHSA Housing Program permanent loan. • Accrued interest will not be forgiven at maturity if the property is converted to a different use or if the property is sold and the proceeds of the sale are not reinvested in a property that has a like use and is encumbered by an MHSA Housing Program Regulatory Agreement, with a new note/deed of trust in the amount of the original MHSA Housing Program permanent loan. • If applicable, the loan term for Rental Housing Developments with HUD 811 loans shall be consistent with HUD requirements. The 0.42% administrative fee shall be due as a lump sum at loan disbursement. • Disbursed MHSA Housing Program capitalized operating subsidies may be either a grant or a deferred loan, at the election of the borrower.
Approved Housing Types	Both Rental Housing Developments and Shared Housing Developments are permitted as defined below.
Shared Housing Developments	• A Shared Housing Development is a residential building that contains one or more traditional residential units. All bedrooms in a Shared Housing unit shall be targeted a member of the MHSA Housing Program target population. • All units in a Shared Housing Development shall be rented to and shared by two or more unrelated adults, each of whom is a member of the MHSA Housing Program target population. While this program is intended primarily for unrelated adult house-mates, nothing in this definition excludes the spouse, adult partner, and/or child of an MHSA Housing Program qualified tenant from sharing the bedroom of the qualified tenant, up to housing occupancy limits. • To qualify for funding, a Shared Housing Development must provide a lease and a separate lockable bedroom for each MHSA Housing Program tenant; the MHSA Housing Program tenant must be responsible for paying rent; and all bedrooms in each residential unit must be targeted for occupancy by a member of the MHSA Housing Program target population.

	• Each Shared Housing residential unit must also contain a kitchen and full bathroom; units with three or more bedrooms must contain a full bathroom and a half bathroom; units with five or more bedrooms must contain two full bathrooms. • A Shared Housing Development may consist of a 2- to 4- unit apartment building, provided that all units in the building are targeted for use as Shared Housing. Larger apartment buildings may be permitted on an exception basis. • Single-family homes and condominiums may also qualify as a Shared Housing Development provided that they have a minimum of two bedrooms. • One-bedroom or studio units in duplexes, triplexes and four-plexes may qualify as Shared Housing units provided that all two-bedroom and larger units in the building are Shared Housing units. For example, a 4-unit building with 2 two-bedroom units, and 2 one-bedroom units will qualify as a Shared Housing Development, provided that all 6 bedrooms are lockable and intended for use by MHSA Housing Program qualified tenants. • Shared Housing Developments cannot be located in Rental Housing Developments. • One apartment/bedroom may be made available for a manager's apartment/bedroom, at the borrower's option, even if Shared Housing Development is not required by California law to have a manager's unit.
Rental Housing Developments	• A Rental Housing Development is an apartment building or buildings with no less than five residential units. • Each MHSA Housing Program targeted unit must have a lease signed by all adult members of the household. The lease must contain language that the targeted unit must be occupied by a qualifying member of the MHSA Housing Program target population. • Each residential housing unit funded by the MHSA Housing Program must be targeted to a qualifying member of the MHSA Housing Program target population, as determined by DMH and the sponsoring county, or alternatively. • If there are other household members occupying the unit who are not members of the MHSA Housing Program target population, and the target population member no longer resides in the targeted unit for whatever reason, the other household members may continue to occupy the targeted unit if the development is a mixed-population development and the housing provider is able to supply a newly vacant non-targeted unit in the same development to an MHSA Housing Program-eligible person. If the development is a single-population development, or no non-targeted vacant units are available, the other household members may continue to occupy the unit for a grace period of 90 days. Capitalized operating subsidies will continue through the end of the grace period. During this grace period, the housing provider will work with the remaining household members to find alternate housing accommodations. If the remaining household members do not find alternate accommodations within the grace period, the borrower shall start eviction proceedings. (This policy is similar to HOPWA requirements. HOPWA is HUD's "Housing Opportunities for Persons with AIDS" program. The HOPWA regulations require housing providers to establish a reasonable grace period following the death of the household member with AIDS. During the grace period, the surviving household members may continue to reside in the HOPWA unit and participate in available social services. The HOPWA regulations also contemplate that the housing provider will assist the surviving household members in locating new housing.)

	• Rental Housing Developments may include both general occupancy buildings and special occupancy buildings. Special occupancy buildings include both senior housing and housing for transition-age youth. For purposes of such buildings, a transition-age youth is an individual who, at initial occupancy, meets the definition of "homeless youth" as defined by California statute. • All units shall include, at a minimum, a sleeping area, a kitchen area and a bathroom. The kitchen area shall at a minimum consist of a sink, refrigerator, counter area, microwave or oven, and a two-burner stove or built in cook top. • All Rental Housing Developments will be required to have adequate space for supportive services staff and service programs. Exceptions may be made for existing buildings where this requirement is not feasible. In buildings with 5 to 100 units, at least 10% of the units, but no fewer that 5 units per development, shall be set aside for members of the MHSA Housing Program target population. In buildings with more than100 units, at least 10 units shall be set aside for members of the target population. • One unit may be made available for a manager's unit, at the borrower's option, even if the Rental Housing Development is not required by California law to have a manager's unit. Additional managers' units may be made available consistent with California law. • Rental Housing Developments smaller than five units may be considered on an exception basis.
County Applicants	• Applications shall be submitted to DMH and CalHFA via county mental health departments, which shall apply for funding in conjunction with and on behalf of a qualified developer/borrower. • The submission by the county mental health department will signify the county's approval of all of the following; 1) The capital funding request for the development, 2) The capitalized operating subsidy funding request for the development, and 3) A commitment by the county mental health department to provide funding for supportive services for the residents of the development who are members of the target population for the term of the MHSA Housing Program loan. 4) Other items, to be determined, as required by DMH.
Qualified Developers and Borrowers	• Qualified developers include: 1) Developers with a track record of successful housing development and a history of serving the target population, 2) Developers with a track record of successful housing development but with no history of serving the target population, but with a strong contract/Memorandum of Understanding with a qualified service provider and property manager, and the assistance of qualified consultants with a history of successfully working with developers to house the target population, 3) A qualified supportive services provider with a joint venture developer partner with a history of successful development, who has entered into a strong contract/Memorandum of Understanding with a qualified property manager, and has the assistance of qualified consultants who have a history of successfully

	working with similar joint venture partners to house the target population, 4) A qualified supportive services provider with a qualified development team that has a history of successful development and that has entered into a contract/Memorandum of Understanding (acceptable to CalHFA) with a qualified property manager, or 5) For a Shared Housing Development that consists of a condominium, single family home, duplex, triplex and/or four-plex, an appropriate agency of the county. • The developer and its affiliate organizations will be evaluated both for their ability to successfully develop and manage the real estate component of the project, and for their ability to partner with a service provider or lead service provider to deliver high-quality services to the target population. • The borrower must be legally organized as one of the following: 1) A limited partnership (LP). The managing general partner of the LP must be a 501(c)(3) corporation or a limited liability company (LLC) whose sole member or members are 501(c)(3) corporations; 2) A 501(c)(3) corporation; 3) An LLC whose sole member or members are 501(c)(3) corporations; 4) An affiliate of a local redevelopment agency; 5) An affiliate of the county created to hold properties financed with MHSA Housing Program funding, or 6) An affiliate of a local housing authority created to hold properties. • The borrower also must be organized as either 1) A single asset entity (in the case of a LP or LLC), or 2) A separate legal entity that only holds properties that have MHSA Housing Program funding, as appropriate.
MHSA Loan Allocations Per County	• Each county will have MHSA Housing Program capital and capitalized operating subsidy funds allocated to them by the California Department of Mental Health (DMH). The permanent (capital) loans and capitalized operating subsidy awards made under the MHSA Housing Program in a given county will be limited by the funds available to each county under the DMH allocation formula. • Initially, $400 million will be available to counties for this program. • Nothing shall prohibit county mental health departments from utilizing other available funds for this program to supplement their MHSA Housing Program allocations.
Small Counties	• Eight percent of the total funds allocated to the MHSA Housing Program by DMH will be allocated for small county applications under this program. The MHSA funds set aside for small counties are currently estimated to be approximately $9.2 million per year of the available $115 million total annual allocation. • To be identified as "small," the county must have 200,000 or fewer residents in accordance with MHSA requirements, based on the most recent census. • The application process will be the same for large and small counties. However, CalHFA may waive some of the program requirements for small county applications.

	Requests for waivers will be reviewed on a case-by-case basis. • These funds may be combined by contiguous small counties to develop projects serving regional needs. • While it is anticipated that the MHSA Housing Program is sufficiently flexible to meet the needs of small counties, alternate program provisions may be developed in the future if they are needed to address the unique needs of small counties.
Funding Levels	• The MHSA Housing Program will fund one-third of the costs of the MHSA Housing Program targeted units in a Rental Housing Development up to a maximum of $100,000 per targeted unit. Amounts over $100,000, up to one-third of total development costs per targeted unit, will be considered on an exception basis, if requested by the sponsoring county. • No MHSA Housing Program funding will be provided for non-targeted units in Rental Housing Developments, and the developer must provide 100% of the capital costs of the non-targeted units from other sources. • 100% of the capital costs of Shared Housing Developments up to $100,000 per bedroom will be provided by this program, provided that each bedroom is targeted for rental to a tenant who meets the target population definition. • Capital costs above the MHSA Housing Program funding limits for Rental Housing Developments and Shared Housing Developments may be obtained from grants, tax credits, other deferred, forgivable or residual receipts loans from governmental and private loan sources, and other county mental health funds. • Fully amortizing loans may also be used, subject to the restrictions below. ❖ Fully amortizing loans will be allowed for those Rental Housing Developments or Shared Housing Developments that do not receive MHSA Housing Program capitalized operating subsidies. ❖ MHSA Housing Program capitalized operating subsidy funds may not be used to make amortized debt service payments, with the exception of the MHSA Housing Program Administrative Fee of 0.42% and the HCD Prop 1C required interest payment of 0.42%. ❖ Fully amortizing loans will be allowed for Rental Housing Developments that receive MHSA Housing Program capitalized operating subsidies on an exception basis if all of the following conditions are met: • The rents on the non-MHSA Housing Program units are high enough to fully support amortizing debt, and • The operating budgets are bifurcated sufficiently to ensure that the amortizing debt payments are not being paid from MHSA Housing Program capitalized operating subsidy funds. • Developers are advised to consult their attorneys regarding potential legal conflicts between different housing funding sources.
Subordinate Financing	• Subordinate loans or grants are encouraged from local government and third parties to achieve project feasibility. • The MHSA Housing Program Regulatory Agreement and Loan Documents will be subordinate to construction loan documents, fully amortizing permanent loans, and HUD 811 Use Agreements and loan documents. Subordination to other HUD

	documents will be considered on a case-by-case basis • The MHSA Housing Program Regulatory Agreement and Permanent Loans may be subordinate, upon CalHFA approval, to other residual receipts/deferred permanent loans from federal and local sources, provided that those loans are twice the amount of the MHSA Housing Program permanent loan or larger. • When both MHSA Housing Program and HCD/MHP funds are in a project, the Regulatory Agreements and Permanent Loan Documents of the two agencies may be subordinated to other residual receipts/deferred permanent loans from federal and local sources, provided that those loans are twice the amount of the combined total of the MHSA Housing Program and HCD/MHP permanent loans, or larger. • The HCD/MHP housing program permanent loans and regulatory agreements will be subordinated to the MHSA Housing Program permanent loans, provided that there is in place a "risk-sharing provision" regarding disposition of the assets upon foreclosure, acceptable to both agencies. • All other loan documents, loans, leases, recorded use agreements, and recorded grant agreements must be subordinate to the MHSA Housing Program Permanent Loan Documents and Regulatory Agreements.
Rent and Occupancy Requirements	• All MHSA Housing Program units must be targeted for occupancy by MHSA Housing Program target population households. • All MHSA Housing Program targeted units ("bedrooms") in Shared Housing Developments must be targeted to households earning 50% or less of the county median income (as adjusted by household size). • All MHSA targeted units in Rental Housing Developments, must be targeted to households earning 50% or less of the county median income (as adjusted by household size. • CalHFA may, at its discretion, eliminate the income restrictions or, alternatively, reduce the number of income-restricted MHSA Housing Program units when the local jurisdiction does not have Article 34 authority, as long as the units remain targeted to MHSA Housing Program target population members and the rents are restricted to 50% AMI. • Rents in MHSA Housing Program targeted units in Rental Housing Developments must be restricted to 30% of 50% of the county median income (as adjusted by household size). Rents in MHSA Housing Program targeted bedrooms in Shared Housing Developments must be must be restricted to 30% of 50% of the county area median income (as adjusted by household size). Applicants are encouraged to restrict rents for MHSA Housing Program targeted units to 30% of 30% or less of area median income (adjusted by household size). • For units with MHSA Housing Program capitalized operating subsidies, the tenant portion of the rent must be set no lower that 30% of the current SSI/SSP grant amount for a single individual living independently, for a studio unit/one-bedroom unit, or 30% of total household income, whichever is higher. **[NOTE**: A clause allowing owners to opt out of the MHSA Housing Program restrictions in the event that rental and Capitalized operating subsidies are exhausted and not renewable is currently under discussion**]**.
Reserve Requirements	• A minimum of three months of the first year's operating cost must be capitalized as an

	operating reserve. This reserve will be held for the term of the MHSA Housing Program loan. • A minimum of 10% of the first year's operating cost must be reserved as a rent-up reserve. • A minimum replacement reserve deposit of $1,000/unit must be capitalized on acquisition rehabilitation projects. This may be limited to MHSA Housing Program targeted units at CalHFA's discretion. • Minimum annual replacement reserve deposits of $500/unit/year shall be required. • These amounts may be revised from time to time by CalHFA.
Allowable Costs	• All costs normally allowed as development costs for supportive housing by CalHFA are allowable costs for MHSA Housing Program loans. Developer fees may be no higher than those allowed by TCAC and will be reviewed individually for appropriateness. • Up to two years of transition reserve, if required by HCD/MHP. • Up to 100% of the first year's operating cost may be capitalized as a regular operating reserve. • Up to $3,000 per unit of replacement reserves may be capitalized if funds are available in the development budget. • Between three to six months of rent-up reserves may be capitalized, depending upon the tenant certification procedures required by the county for MHSA Housing Program targeted units. • Ground lease payments must be capitalized in the development budget, and cannot be amortized over the term of the loan.
Capitalized Operating Subsidies	• The borrower and the county mental health department may apply for a reservation of capitalized operating subsidies for the MHSA Housing Program targeted units. • Priority in allocating capitalized operating subsidies will be given to Rental Housing Developments. • Only the operating costs of MHSA Housing Program targeted units may be subsidized with capitalized operating subsidies. Non-targeted unit costs, including supportive services costs, are not eligible costs and must be accounted for in a separate, bifurcated budget. • Capitalized operating subsidies reserves to will be sized to allow for operating subsidies for 18 years. CalHFA may increase the reserve amount to allow capitalized operating subsidies for 20 years to the extent that funds are available within the $100,000 per unit cap. • Capitalized operating subsidies will be capitalized at permanent loan conversion/closing and held by CalHFA in an interest-bearing reserve account for the benefit of the development. • Capitalized operating subsidies start at the point the development receives its Certificate of Occupancy for new construction projects, or at recorded notice of completion for acquisition-rehabilitation projects. • Capitalized operating subsidies will be disbursed quarterly, in advance. The first advance will have an additional 270-day cushion, which additional cushion may not be

spent unless authorized by CalHFA.

- Capitalized operating subsidy reserves will not be the property of the development. Capitalized operating subsidy reserves not needed by the development, as determined by CalHFA, will be recaptured for other MHSA Housing Program developments of the applicant county.
- A development's capitalized operating subsidy reserve will be sized based on a review of the difference between the tenant portion of the rent and operating expenses in the proforma first-year operating budget, a 2.5% annual income escalator and a 3.5% annual cost escalator. Interest earnings on the reserve will be factored into the cost escalator calculation.
- The capitalized operating subsidy payments will be reconciled with actual operating costs every year or as required.
- Occupancy will be reviewed annually.
- Capitalized operating subsidies will be reduced or terminated for developments that do not rent their targeted units to members of the MHSA Housing Program target population.
- Capitalized operating subsidies will be reduced or temporarily stopped for MHSA Housing Program targeted units when the resident has a housing choice voucher (HCV), absent mitigating circumstances
- Capitalized operating subsidies are only available while a member of the MHSA Housing Program target population resides in the unit (that is, not during months in which the target population member has moved out of the unit), except that:
  - ❖ Capitalized operating subsidies will continue if the target population member is in a hospital, an acute or long-term care facility, or other institutional setting for up to three months;
  - ❖ Capitalized operating subsidies will continue through the end of the 90-day grace period following the date the target population member moves out of the unit; and
  - ❖ Capitalized operating subsidies will continue for two months upon vacancy of an MHSA Housing Program unit that receives capitalized operating subsidies.
- If family members, who are not members of the MHSA Housing Program target population, continue to reside in the unit after the MHSA Housing Program target population member is no longer in residence, they must be given timely legal notice that the capitalized operating subsidy has been terminated and the rent for the unit will increase to the lease rate, or alternately, the market rent or the highest restricted rental rate beginning 90 days after the MHSA Housing Program target population member has left the unit.
- Capitalized operating subsidies will not be available for projects that do not receive permanent loan funds from the MHSA Housing Program.
- Capitalized operating subsidy reserve awards will be made at loan commitment but will be conditioned upon a demonstration, prior to permanent loan closing, that the Developer has applied in good faith for other available rental housing subsidies for the project, and been unsuccessful in its application(s). Developers will be asked to identify in their applications the rental subsidy source or sources for which are applying and why they are pursuing that source or sources. The determination of the appropriateness of the source or sources will be made during the underwriting process. Documentation of good faith application to the alternate source or sources will be required during the underwriting process. Developers will only be required to apply for other subsidies in one award cycle.

	• Projects that receive rental or operating subsidy contracts from other sources that have a term of less than 18 years may also apply for a back-up award for MHSA Housing Program capitalized operating subsidies for the time period not covered by their other subsidy contract(s), provided that they agree to apply for all available extensions of subsidy contract(s) they receive. Back-up awards will be dependent on the availability of funds. Back-up capitalized operating subsidy reserves not needed by the development, as determined by CalHFA, will be recaptured for other MHSA Housing Program developments. • Asset management fees of $30/unit/month per MHSA Housing Program unit may be paid from capitalized operating subsidies, up to $18,000 per development. • Bond issuance fees may be paid from capitalized operating subsidies. • Ground lease payments may not be paid from capitalized operating subsidies unless they are token payments. • Deferred developer fees may be paid from capitalized operating subsidies to the extent that funds are available within the $100,000/unit cap after all operating and replacement and operating reserves, the CalHFA Administrative fee and, if applicable, the HCD minimum interest payment and any bond fees have been paid. • Service coordinator salaries and benefits may be paid from capitalized operating subsidies but only to the extent that funds are available within the $100,000/unit cap after all operating costs, replacement and operating reserves, the CalHFA Administrative fee and, if applicable, the HCD minimum interest payment, any bond fees, and deferred developer fees have been paid. • Annual replacement reserves deposits, and a 3% Operating Reserve, may be paid from capitalized operating subsidies. • All developments will be required to apply for the "welfare tax exemption" (property tax exemption), and will be required to maintain that exemption for the term of the loan. • Projects receiving MHSA Housing Program capitalized operating subsidy awards may be subject to limitations on distributions.
Asset Management	• Replacement reserves and regular operating reserves for the development will be held by CalHFA. This requirement may be waived at CalHFA's discretion. CalHFA typically will not hold reserves where there is a fully amortizing first mortgage, or where CalHFA is not holding the capitalized operating reserve. • CalHFA will hold capitalized operating subsidies in a reserve. • Taxes and insurance will be impounded by CalHFA. They will be deducted from capitalized operating subsidies paid to the development. This requirement may be waived at CalHFA's discretion. • All developments will be required to submit quarterly financial reports. This requirement may be waived, or more frequent reporting may be required, at the CalHFA's discretion. • All developments will be required to submit annual audits prepared by a certified public accountant in accordance with commonly accepted accounting standards. The audit requirement may be waived at CalHFA's discretion or alternately, CalHFA may, at its discretion, substitute a different form of financial certification for Shared Housing Developments and small Rental Housing Developments of 25 units or fewer.

Services	• The borrower must provide a clearly articulated service delivery program and property management plan. • The services provided must be appropriate to the target population, and designed to assist the MHSA Housing Program target population residents to live independently. • The borrower must have a commitment for service funding from the county mental health department upon submission of the MHSA Housing Program loan application. All projects must identify a qualified service provider that will provide supportive services to the residents. In the event that there are multiple service providers, the application must identify a primary service provider for the project. The borrower will be required to arrange for the provision of services for the term of the MHSA Housing Program loan. • All applications must include a supportive services plan, which must meet MHSA Housing Program requirements and must be approved by DMH. A supportive services budget will be required by CalHFA as a condition of funding. • All projects must provide an MOU between the borrower, primary service provider, property management agent and the county mental health department that clearly delineates the roles and responsibilities of the parties.
Target Population	• The California Department of Mental Health has defined the target population as low income adults or older adults with serious mental illness as defined in Welfare and Institutions Code Section 5600.3 (b) (1), and children with severe emotional disorders and their families, who at time of assessment for housing services meet the criteria for the Community Services and Support component of the Three-Year Program and Expenditure Plan in their county of residence and are homeless or at risk of homelessness. ❖ Homeless is defined as living on the streets, or lacking a fixed, regular, and adequate night time residence. (This includes shelters, motels and living situations in which the individual has no tenant rights.) ❖ At risk of homelessness includes the following: transition-age youth exiting foster care or juvenile hall; individuals discharged from institutional settings, Individuals released from local city or county jails; individuals temporarily placed in Residential Care Facilities upon discharge from one of the institutional settings defined below, and individuals who have been assessed and are receiving services at the county mental health department, and who have been deemed to be at imminent risk of homelessness, as certified by the county mental health director. ❖ Institutional settings is defined as hospitals, including acute psychiatric hospitals, psychiatric health facilities (PHF), skilled nursing facilities (SNF) with a certified special treatment program for the mentally disordered (STP), and mental health rehabilitation centers (MHRC), and crisis and transitional residential settings. • To receive assistance under the MHSA Housing Program, the proposed project must serve the MHSA Housing Program target population and must ensure the provision of services necessary to allow members of the target population to live independently. • CalHFA and DMH reserve the right to review and approve all applications and all supportive services plans for eligibility for the MHSA Housing Program.
Fees	• Origination Fee: 1% of the loan amount, which will be due at MHSA Housing Program

(Subject to change)	loan closing, or predevelopment loan closing, whichever occurs sooner. • All third party costs commissioned by CalHFA. Examples of possible third party costs include appraisal reports, physical need assessments, and construction inspection.
Application Process	All projects will be required to submit a completed application with all attachments. The application will be on the DMH and CalHFA web sites. It will include MHSA Housing Program specific requirements and the joint CalHFA, TCAC, CDLAC, and HCD application ("the Universal Application").
Due Diligence	The due diligence reports listed below are required for all projects Preparation of reports will be at the developer's / borrower's expense: • A management contract with a qualified property manager. • Plans and Specifications for new construction. • Plans and specifications and a narrative scope of work for acquisition/rehabilitation developments. • Plans and Specifications are not required for Shared Housing Developments where rehabilitation is not required. • Plans should provide for supportive services space, and office space for service staff as appropriate in Rental Housing Developments. • Three years of audited financials for the developer. • An MOU between the developer, the primary service provider, the property management company and the county mental health department. • A supportive services plan. A supportive services budget will be required as a condition of funding. • A commitment from the county mental health department for services funding. • Qualifications and evidence of experience with similar projects from the developer and development team members, together with resumes for their key personnel. • Property appraisal, market study, Phase I Report, and other studies as appropriate. • Freddie Mac Form #70 (single family) or #72 (small rental) appraisals, as appropriate, will be required for Shared Housing appraisals. MAI commercial appraisals will be required for Rental Housing Developments. • Physical Needs Assessments, building inspection reports, sewer camera reports, roof reports, lead-paint, mold, asbestos, and structural (seismic) studies, as appropriate, for acquisition/rehabilitation projects. • Evidence of Article 34 compliance, if applicable.
Predevelopment Loans	• Predevelopment loans of up to $500,000 will be available to all Rental Housing Developments that have received an MHSA Housing Program loan commitment, have obtained all other permanent financing commitments, and can demonstrate site control and receipt of all required local entitlements. • Predevelopment loans of up to $200,000 will be available to all Shared Housing Developments that have received an MHSA Housing Program loan commitment, have obtained other permanent financing commitments if applicable, and can demonstrate site control and evidence of appropriate zoning.

	• The predevelopment loan term will be either two years or until construction loan closing, whichever is sooner. • Interest will be 3% fixed, and will be deferred until construction loan closing. Predevelopment loan interest will be forgiven at construction loan closing. • Predevelopment loan funds will be available for predevelopment costs necessary to complete due diligence required for construction loan closing or permanent financing. Examples of eligible predevelopment costs include engineering studies, Phase 2 studies, and architectural fees, legal fees and the 1% MHSA Housing Program loan fee. • Staffing costs, purchase option costs, and all costs associated with site acquisition are not eligible costs for predevelopment loans. • Predevelopment loans of less than $200,000 may be secured against the property at CalHFA's discretion. All predevelopment loans in excess of $200,000 must be secured against the property. .
Questions	CalHFA will administer this housing program for DMH under an interagency agreement between the two agencies in accordance with DMH regulations, which are currently being promulgated. Financing questions regarding the MHSA Housing Program may be directed to CalHFA's Multifamily Programs Division: Edwin Gipson, Chief of Multifamily Programs Phone: (310) 342-6899; Fax: (310) 342-1225 Email: egipson@calhfa.ca.gov Questions on the Mental Health Services Act and DMH regulations may be directed to DMH's MHSA Special Projects unit: Jane Laciste, Chief, Special Projects Phone: (916) 654-3529 Email: jane.laciste@dmh.ca.gov

IMPORTANT DISCLOSURE INFORMATION:

The information provided in this program description is for guidance only. While we have taken care to provide accurate information, we cannot cover every circumstance or program nuance of the MHSA Housing Program, the Mental Health Services Act and the regulations enacted under it by DMH, and/or housing law. This program description is subject to change from time to time without prior notice.

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RESOLUTION 07-20

RESOLUTION APPROVING DISSOLUTION
OF THE COMPENSATION COMMITTEE

WHEREAS, on September 7, 2006, the Board of Directors of the California Housing Finance Agency enacted Resolution 06-16 establishing a Compensation Committee to advise the Board on matters related to the compensation of Agency employees, and

WHEREAS, the Board of Directors enacted a Compensation Committee Charter pursuant to such Resolution 06-16; and

WHEREAS, the Board of Directors now desires that the entire Board of Directors assume the responsibilities established for the Compensation Committee, and;

WHEREAS, the Board of Directors now wishes to dissolve the Compensation Committee;

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

1. Resolution 06-16, establishing a Compensation Committee and approving a charter for such committee, is hereby repealed, and the Compensation Committee is hereby dissolved.

2. Any and all functions previously delegated or assigned to the Compensation Committee shall be the responsibility of the full Board of Directors.

I hereby certify that this is a true and correct copy of Resolution 07-20 adopted at a duly constituted meeting of the Board of Directors of the Agency held on August 9, 2007, at Sacramento, California.

ATTEST: _____
Secretary

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RESOLUTION 06-16

RESOLUTION APPROVING COMPENSATION COMMITTEE CHARTER

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

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

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

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

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

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

ATTEST: _____
Secretary

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CALIFORNIA HOUSING FINANCE AGENCY
COMPENSATION COMMITTEE CHARTER
AUGUST, 2006

MISSION

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

MEMBERSHIP

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

AUTHORITY

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

MEETINGS

The Committee will meet as often as its members determine is necessary, but not less frequently than twice each calendar year. The committee will report its proceedings and recommendations to the full Board, at the first regular meeting of the Board following a Committee meeting. All meetings of the Committee shall be open public meetings subject to the same notice and agenda procedures as are regular meetings of the Board. Any personnel evaluations may be held in closed session to the extent permitted or required by the Bagley-Keene Act; provided, however, that discussions of compensation issues shall take place in open session.

MINUTES

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

DUTIES

The Committee will conduct the following activities:

1. Make recommendations to the full Board to enable the Board to carry out its duties and functions under Health and Safety Code section 50909;

2. Periodically cause to be conducted salary surveys that will form the basis of the design of a compensation plan that will attract and retain senior executive personnel qualified to lead the Agency in its mission and maintain its competitive posture in the marketplace. Such surveys will be conducted by independent outside advisors based on a comparison of compensation plans and compensation levels of other state and local housing finance agencies, other comparable agencies of the State of California, non-profit housing agencies, for-profit institutions and other relevant labor pools;

3. Periodically review and evaluate, with the assistance of Agency management, staff and outside advisors, the structure and level of Agency compensation of those senior executives whose salaries are established by the Board pursuant to section 50909;

4. Annually review the performance of the Executive Director;

5. Based on the annual review of the Executive Director's performance and the results of the salary surveys conducted by independent outside advisors, make a recommendation to the Board for the compensation level of the Executive Director;

6. Annually review that portion of the Agency's budget containing the compensation of key exempt management and recommend to the Board approval or amendments to those compensation levels. The Committee's recommendation will be based on a review of performance evaluations completed by the Executive Director and the results of the salary surveys conducted by outside advisors;

7. Review and discuss management succession at least annually;

8. Review legal and regulatory matters that may have a material impact on the Agency's compensation philosophy, structure and plans.

OTHER COMMITTEE DUTIES

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

1. Conduct a review of its performance, including a review of its compliance with this Charter;

2. Review and assess the adequacy of this Charter taking into account all legislative, regulatory and contractual requirements applicable as well as any best practices, and, if appropriate, will recommend Charter amendments to the Board.

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MEMORANDUM

To: Board of Directors
California Housing Finance Agency

Date: July 27, 2007

From: Theresa A. Parker, Executive Director TAP
California Housing Finance Agency

Subject: Salary Caps for the Directors of Multifamily & Homeownership

As I alerted you at our last Board Meeting on July 5th, after working on trying to recruit quality candidates for the position of Director of Multifamily and Homeownership I have not been successful at the current salary ranges approved by the Board as of March 2007. During previous discussions with the Board about compensation, it has been my understanding that the Board wanted me to bring back recommendations on compensation if it became a prohibition to successful recruitment. Therefore, to facilitate the discussion of Item 7 on the Board's agenda, I have included two items for your consideration.

- A letter from Wayne Lucias (our recruitment consultant from Management Advisors) discussing market conditions for recruitment of our CalHFA positions based on the Board's level of compensation approved to date.

- A chart depicting the actions taken by the Board to set compensation levels for the ten exempt positions; further action taken by the Board in March 2007 to revise salary ranges and impose a salary cap and my proposed recommendation to change the maximum salary cap for the positions of director of Multifamily and Homeownership to the maximum salary previously approved by the Board in January 2007.

I'm confident with this proposed change that I will be able to recruit candidates for these vacant positions within the maximum salary cap requested.

Attachments

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MANAGEMENTadvisors
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EXECUTIVE SEARCH CONSULTANTS
5597 Trowbridge Dunwoody, GA 30338 (770) 673-0258 (305) 425-7626 Fax

Terri Parker
Executive Director
California Housing Finance Agency
1415 "L" Street Suite 500
Sacramento, CA 95814

July 20, 2007

Terri,

Based on my own experience, collaboration with my colleagues and feedback from candidates and others in the business, I would like to make some suggestions and observations about your compensation and benefits packages.

I know your goal is to attract quality candidates for the Director of Multifamily Housing and the Director of Home Ownership. You have also expressed an interest in these individuals having extensive lending experience and industry contacts in their respective fields. This type of talent is usually found in the private sector. These candidates are not usually looking to move from their current position into the government sector. They will need a good reason to make the move. The private sector has more variable compensation tied to performance. Most Senior Management Positions have a base salary plus bonus. Loan Officers and Sales Account Executives are paid minimal bases with large incentives. For example, the going rate for a comparable management position to the Director of Multifamily Housing is a base of $100,000 to $150,000 with a bonus potential of 75% to 100% based on performance. I have talked to many Commercial Account Executives that have made between $300,000 and $600,000 for the past several years and they are optimistic that this will hold true in the future. Additionally, I have talked to a person at Freddie Mac which is in a similar position and his total compensation is around $300,000 annually. As you know, I have two excellent candidates that meet your criteria but they are looking for a total compensation package of between $225,000 and $250,000 to start with the potential of growth.

In addition to the compensation plan, while the benefits at CalHFA are good, you need more flexibility to negotiate with specific candidates to meet their needs. Having some sort of signing bonus is a way to help when you can not buy a candidates home or he has to leave a bonus or stock options at his current position. In fact we just had a candidate that has passed on the Director of Homeownership because he feels that the additional expense to him above the reimbursement amounts would be too great. He feels he would have living expenses in two locations until his wife could sell the home and join him and of course he would want to go home every two weeks for a long weekend to be with his family.

As I have mentioned previously, I think you can attract a quality candidate for the Director of Homeownership with the $175,000 base. However, you may get more for your money if you use a base of around $140,000 and a bonus of 25% to 50%. The bonus should be tied to performance. The bonus criteria should cover such things as production goals, cost control, quality of business and overall profitability. This structure puts a cap on how much the person can make and still motivates him. The Director of Multifamily Housing would probably need to be in the base range of $150,000 with at least a 50% bonus structure.

I am not suggesting that you substantially change how much money you pay someone but I am suggesting that you have more flexibility in your plans to attract and motivate quality people. Again, a signing bonus of $15,000 to $25,000 would help relocation expenses. Many private companies gross up the home move so the candidate does not have to pay taxes on reimbursement expenses. They also pay for several months of temporary housing and commuting expenses until the home is sold.

We can discuss this further before your board meeting. Thanks for your consideration.

Sincerely,

Wayne Lucius

Wayne Lucius
Senior Vice President

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Current Salaries by Position, January 18, 2007 Maximum Salaries, March 8, 2007 Revised Caps and Proposed Caps

Grade	Positions	Current Board Approved Salary	January 18, 2007 Maximum Salary	March 8, 2007 Salary Cap	Proposed Salary Cap Change
1	Executive Director	$175,000*	$250,000	$210,000	N/A
2	Chief Deputy Director	$175,000*	$220,000	$190,000	N/A
2	Director of Financing	$170,000	$220,000	$190,000	N/A
2	Director of Multi-family Programs	Vacant	$220,000	$190,000	$220,000
2	Director of Homeownership	Vacant	$220,000	$190,000	$220,000
3	General Counsel	$170,000	$190,000	$170,000	N/A
3	Director of Mortgage Insurance	$160,000	$190,000	$170,000	N/A
4	Chief Information Officer	$125,000*	$150,000	$137,500	N/A
4	Risk Manager	$137,500	$150,000	$137,500	N/A
5	Director of Legislation	$95,592	$100,000	$105,000	N/A

* Salary set as of January 1, 2007 but not yet implemented

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RESOLUTION 07-21

RESOLUTION MODIFYING PRIOR SALARY CAP RESOLUTION

WHEREAS, on January 1, 2007, amendments to Health & Safety Code section 50909 became effective, directing the Board of Directors of the California Housing Finance Agency (the "Board of Directors") to establish salaries for key exempt managers; and

WHEREAS, on January 18, 2007, the Board adopted Resolution 07-06, establishing salary ranges for certain exempt positions as an aid in setting specific salaries; and

WHEREAS, The Board of Directors thereafter adopted Resolution 07-07, establishing specific salaries for certain exempt managers; and

WHEREAS, on March 8, 2007, the Board adopted Resolution 07-10, amending the salary ranges previously adopted in Resolution 07-06, and establishing salary caps for such positions, and

WHEREAS, the Agency has for an extended time been in the process of recruiting to fill the vacant positions of the Director of Multifamily Programs and the Director of Homeownership Programs; and

WHEREAS, the salary caps previously adopted for the positions of Director of Multifamily Programs and the Director of Homeownership Programs appear to be insufficient to attract candidates of superior qualifications, as required by Health & Safety Code Section 50909,

WHEREAS, the salary survey conducted pursuant to Health & Safety Code Section 50909 permits the establishment of a higher salary cap than that enacted in Resolution 07-10,

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

1. The Board of Directors modifies the permitted salary caps previously established in Resolution 07-10 for the positions of the Director of Multifamily Programs and the Director of Homeownership Programs, as described below.

2. The salary cap for the Director of Multifamily Programs shall be:

3. The salary cap for the Director of Homeownership Programs shall be:

I hereby certify that this is a true and correct copy of Resolution 07-21 adopted at a duly constituted meeting of the Board of Directors of the Agency held on August 9, 2007, at Sacramento, California.

ATTEST: _____
Secretary

RESOLUTION 07-22

RESOLUTION APPOINTING DIRECTOR OF MULTIFAMILY PROGRAMS

WHEREAS, the position of Director of Multifamily Programs of the California Housing Finance Agency ("Agency") is currently vacant; and

WHEREAS, the Agency Board of Directors is authorized to appoint an employee pursuant to California Constitution Article VI, Section 4(e); and

WHEREAS, Health & Safety Code Section 50909 authorizes the Board of Directors to set a salary for the position of Director of Multifamily Programs in an amount reasonably necessary to attract and hold a person of superior qualifications;

WHEREAS, _____ is well qualified for the position of Director of Multifamily Programs; and

WHEREAS, the Board of Directors wishes to appoint _____ to the position of Director of Multifamily Programs of the California Housing Finance Agency;

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

1. _____ is hereby appointed to the position of Director of Multifamily Programs of the California Housing Finance Agency, at an annual salary of _____

I hereby certify that this is a true and correct copy of Resolution 07-22 adopted at a duly constituted meeting of the Board of Directors of the Agency held on August 9, 2007, at Sacramento, California.

ATTEST: _____
Secretary

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