

**STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY**

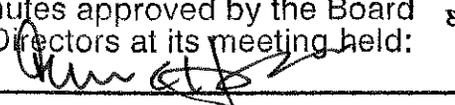


**BOARD OF DIRECTORS
PUBLIC MEETING**



**Holiday Inn Capitol Plaza
Fresno Room
300 J Street
Sacramento, California**

**Thursday, November 13, 2008
9:38 a.m. to 12:50 p.m.**

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

Attest: December 12, 2008

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

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

PETER N. CAREY
 (Interim CalHFA Board Chair)
 President/CEO
 Self-Help Enterprises

CAROL GALANTE
 President
 BRIDGE Housing Corporation

LORI R. GAY
 President/CEO
 Los Angeles Neighborhood Housing Services, Incorporated

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

ELLIOTT MANDELL
 for LYNN L. JACOBS, Director
 Department of Housing and Community Development
 State of California

HEATHER PETERS
 for DALE E. BONNER, Secretary
 Business, Transportation, and Housing Agency
 State of California

BETTINA REDWAY
 for State Treasurer BILL LOCKYER
 State of California

BROOKS TAYLOR
 for CYNTHIA BRYANT, Director
 Office of Planning and Research
 State of California

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A P P E A R A N C E S*Continued***Participating CalHFA Staff:**

GARY BRAUNSTEIN
Acting Director &
Special Advisor to the Executive Director
Homeownership Lending

BRUCE D. GILBERTSON
Director
Financing Division

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

CHARLES K. McMANUS
Director
Mortgage Insurance Services

DENNIS MEIDINGER
Comptroller

JOJO OJIMA
Office of the General Counsel

Also Present

STANLEY J. DIRKS, Esq.
Orrick Herrington & Sutcliffe, LLP
(Bond counsel)

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1 BE IT REMEMBERED that on Thursday, November 13,
2 2008, commencing at the hour of 9:38 p.m., at Holiday Inn
3 Capitol Plaza, Fresno Room, 300 J Street, Sacramento,
4 California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR
5 and CRR, the following proceedings were held:

6 --oOo--

7 CHAIR CAREY: This is the November 13th meeting
8 of the California Housing Finance Agency Board of
9 Directors.

10 Welcome, everybody.

11 --oOo--

12 **Item 1. Roll Call**

13 CHAIR CAREY: Our first order of business is
14 the *Roll Call*.

15 MS. OJIMA: Thank you.

16 Ms. Peters for Mr. Bonner?

17 MS. PETERS: Here.

18 MS. OJIMA: Ms. Galante?

19 MS. GALANTE: Here.

20 MS. OJIMA: Ms. Gay?

21 MS. GAY: Here.

22 MS. OJIMA: Mr. Mandell for Ms. Jacobs?

23 MR. MANDELL: Here.

24 MS. OJIMA: Thank you.

25 Ms. Javits?

1 MS. JAVITS: Here.

2 MS. OJIMA: Ms. Redway for Mr. Lockyer?

3 MS. REDWAY: Here.

4 MS. OJIMA: Mr. Shine?

5 *(No response)*

6 MS. OJIMA: Mr. Taylor for Ms. Bryant?

7 MR. TAYLOR: Here.

8 MS. OJIMA: Mr. Genest?

9 *(No response)*

10 MS. OJIMA: Ms. Parker?

11 MS. PARKER: Here.

12 MS. OJIMA: Mr. Carey?

13 CHAIR CAREY: Here.

14 MS. OJIMA: We have a quorum.

15 CHAIR CAREY: Thank you, JoJo.

16 --oOo--

17 **Item 2. Approval of the Minutes of the October 2,**
18 **2008, and October 20, 2008, Board of**
19 **Directors Meetings**

20 CHAIR CAREY: We have the minutes of the
21 meetings of October 2nd and October 20th for approval or
22 correction.

23 MS. GALANTE: I'll so move.

24 MS. PETERS: Second.

25 CHAIR CAREY: Any discussion?

1 (No response)

2 CHAIR CAREY: All in favor? Or are we doing
3 that roll call?

4 MS. OJIMA: Roll call.

5 CHAIR CAREY: Roll call, sorry.

6 MS. OJIMA: Thank you.

7 Ms. Peters?

8 MS. PETERS: Aye.

9 MS. OJIMA: Ms. Galante?

10 MS. GALANTE: Aye.

11 MS. OJIMA: Ms. Gay?

12 MS. GAY: Aye.

13 MS. OJIMA: Mr. Mandell?

14 MR. MANDELL: Aye.

15 MS. OJIMA: Ms. Javits?

16 MS. JAVITS: Aye.

17 MS. OJIMA: Thank you.

18 Ms. Redway?

19 MS. REDWAY: Aye.

20 MS. OJIMA: Mr. Carey?

21 CHAIR CAREY: Aye.

22 MS. OJIMA: The minutes have been approved.

23 --o0o--

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

25 CHAIR CAREY: Okay, we have met frequently, but

1 I feel very confident that the Agency is moving forward,
2 dealing with issues. It's frustrating to be facing some
3 transitions in the process, but from everything I think
4 we've seen, the Agency is well equipped to deal with the
5 challenges, I think, facing it.

6 I would like to offer an opportunity for
7 Ms. Javits to make a couple of comments.

8 MS. JAVITS: Thank you.

9 I think maybe in an attempt to represent the
10 Board, but I will just represent myself, I just wanted to
11 express my appreciation to Terri by saying a few things,
12 as this is just the month before Terri's going to be
13 departing.

14 And the first thing I guess I want to say is,
15 Terri is, to me, the outstanding example of a public
16 servant. She's smart. She's independent. Way before it
17 was fashionable, Terri was all about balancing the social
18 mission and the business mission of government, before
19 people even sort of thought about it that way. She's
20 been willing to stick her neck out to do what's right.
21 There are too few people who are willing to do that, and
22 certainly who are willing to do that through an entire
23 career, as Terri has.

24 Life in the public spotlight is very hard. And
25 Terri has lived there for a very lengthy career. She's

1 done it with grace, with strength, and with 100 percent
2 total integrity. And I just want to express my
3 admiration and my appreciation on behalf of the Board to
4 Terri for leading us, and providing leadership in this
5 state for so many years in such an incredibly admirable
6 way, through good times and bad.

7 Thank you so much.

8 MS. PARKER: Thank you, Carla.

9 CHAIR CAREY: I think all of us feel the same
10 way. I know these are very challenging times. But I
11 personally can't think of anyone who could have done
12 better or who would have put more of themselves into the
13 mission of the Housing Finance Agency. And I know we'll
14 have additional opportunities to say "thank you," but it
15 won't be enough to fully represent the feelings of the
16 Board.

17 So thank you; and we will have more to say.
18 With that, I know everybody's got schedules to meet, so
19 we'll move forward.

20 And the first item is Item Number 4 on the
21 agenda.

22 MS. PARKER: *(Shaking head.)*

23 CHAIR CAREY: No?

24 MS. PARKER: Number 3.

25 CHAIR CAREY: No.

1 MS. PARKER: I'm the Executive Director.

2 CHAIR CAREY: I'm sorry, Terri. See, I'm
3 still -- that's why it says "*Interim*."

4 MS. PARKER: Thank you, Mr. Chairman.
5 I actually have -- maybe if I didn't have good news, I
6 might not just let you pass me by.

7 But I think we've got a good, prepared meeting
8 for you today. Certainly, we have tried to -- we were
9 working through late last night, making sure all the
10 information that we are presenting to you today is as
11 current as possible.

12 And one of the pieces -- and when we go through
13 the presentation, we'll talk to you about the most recent
14 meetings that Bruce and I were in Washington in the first
15 part of the week talking to the conservators for the
16 GSEs. We also met with Freddie, and we can tell you
17 about the various steps that we were doing that we were
18 trying to promote at the federal level as part of my
19 colleagues across the country, housing finance agencies,
20 the importance of continuing to have housing finance
21 agencies act in their role of really trying to deal with
22 affordable housing in this crisis when, you know, the
23 market is so disrupted.

24 But the one thing I wanted to tell you, as we
25 have talked over the last several weeks and months, we've

1 had to suspend some of the programs that we've been
2 running because of not having access to the bond market,
3 and trying to preserve for those programs that are funded
4 out of our Housing Assistance Trust funds those dollars
5 to deal with the issues for the rating agencies.

6 But one of the programs that we have tried to
7 continue to look for ways to keep it alive is the most
8 recent program that we started about three months ago,
9 the Community Stabilization Home Loan Program that is in
10 a limited number of localities.

11 And as you will recall, that was a loan that --
12 a program that we are working in partnership with a
13 number of -- four banks, and where they are providing a
14 discount on those properties relative to the market. And
15 in exchange, we're offering a 5.5 percent interest rate
16 100 percent loan, which we are covering through our own
17 mortgage insurance company.

18 As we told you and reported to you at one of
19 the last meetings we had attended, to sell debt to
20 support the 5.5 percent interest rate through the
21 generosity of Fannie Mae giving us \$200 million of
22 liquidity, which these days is about as scarce as --
23 well, think of some scarcity. I'll leave that to your
24 imagination.

25 But we were challenged with the offer on

1 Fannie Mae's part for us to use that \$200 million to
2 solve some of our tainted-bond problems as we have
3 presented to you. And we'll reiterate that again today
4 in presentation.

5 So we have been trying to figure out what to do
6 with the CSHLP, as we affectionately refer to the
7 program.

8 Bruce, once again, has been the hero by finding
9 \$25 million that we can use in this interim to continue
10 to provide 5.5 percent interest rate for these loans. We
11 only have about \$4 million that has come in so far. The
12 program really sort of started to gain a little bit of
13 momentum. We're doing two, three, four loans a week.
14 So we think that this \$25 million will be able to carry
15 us for a couple of months; and we won't have to make any
16 changes in the program.

17 We're very excited about that, particularly
18 because we're hoping that when the committee for CDLAC
19 meets next month, that we will be getting an allocation
20 of these funds so that hopefully next year we can start
21 expanding it to statewide.

22 The one last thing I'll report about, is that
23 in the last week I have had conversations with Bank of
24 America and Countrywide about participating in this
25 program. And also, we chatted a little bit about it with

1 Freddie Mac when we were with them on Monday. So I think
2 as the banks are beginning to deal with the impacts on
3 foreclosures, I think that there will be more opportunity
4 to see if they're interested in using this program to
5 deal with some of their REO properties.

6 So with that, Mr. Chairman, I think that
7 concludes my remarks.

8 CHAIR CAREY: Thank you, Terri.

9 --oOo--

10 **Item 4. Report, discussion, and possible action**
11 **regarding the Agency's financing and**
12 **program strategies and implementation,**
13 **in light of financial marketplace disruptions**

14 CHAIR CAREY: Now, we move on to Item 4.
15 Are you taking the lead on that?

16 MS. PARKER: Yes. I will come around and sit
17 with Bruce, and we will walk you through.

18 I think from the staff's standpoint, this has
19 worked very well for us. It seems like it's not our
20 regular meeting because we've had meetings so much.
21 But I can tell you for myself personally, it's been very
22 helpful for us and the staff.

23 I spent this morning on a conference call with
24 some of our partners in the mental-health community that
25 have great concerns about one of our programs. And these

1 are folks we haven't had a chance to talk with in the
2 last three or four months.

3 And when you don't talk to people, it's just --
4 their imaginations of what's happening is far worse than
5 what the facts are.

6 And I think it has served us really well to be
7 able to meet as frequently as we have and communicate to
8 you, and use that as an opportunity for us to be going
9 out and having conversations with other people about the
10 need to be coming back and giving information to our
11 Board on an exceptional and more-often schedule than
12 we've had in the past.

13 And I will just say that, again, that I thank
14 all of you for being a board member to come. I know when
15 you signed on, many of you thought this is kind of a more
16 lower-key board. And you all have professional
17 responsibilities. And to be coming on so regular a basis
18 now is really a credit to the Board, to the Housing
19 Finance Agency in totality, and well represents it to our
20 state public holders and partners, not only here in
21 California but across the country.

22 So with that, let's give you a financial market
23 update and we'll tell you what we've been doing.

24 MR. MEIDINGER: Good morning, Board.

25 Some of the presentation this morning is going

1 to look very familiar. We've gone through a similar
2 format the last two board meetings. Some of the data --
3 all of the data has been updated, but it hasn't changed
4 dramatically, in some cases.

5 So we still believe that we have limited market
6 access for new financings in the primary municipal bond
7 market. Again, as we've shared with you before, we are
8 certainly not alone. This is impacting all municipal
9 issuers.

10 New issuance activity is driven by the retail
11 participation that's Mr. and Mrs. Smith and Mr. and
12 Mrs. Gonzalez that are buying bonds as we go to market.
13 It's not the institutional investors that would typically
14 be the insurance companies, the municipal mutual-fund
15 families, be they short-term or long-term bond funds.
16 They just aren't there for us at this time.

17 Absolute rates are still high. I have a few
18 updates even this morning to the slides that we've
19 prepared last night. And I'll get to that in a moment.
20 But the retail investors are really being asked to
21 replace the institutional investors that traditionally
22 have bought the 20-year, 25-year, and 30-year bonds in a
23 financing structure.

24 Last week's municipal issuance included the
25 Indiana Housing Finance Agency. They were out for a

1 relatively small deal. They got their 30-year bond
2 yields set at 6.45 percent. That is not great
3 considering these are non-AMT bonds, fully tax-exempt.
4 This week includes Connecticut, Florida, and South
5 Dakota.

6 I did receive an e-mail a short while ago that
7 the Connecticut and South Dakota transactions have
8 actually been successfully issued, and the 30-year yield
9 has come down a little bit. I believe Connecticut
10 actually achieved something very close to 6 percent, and
11 South Dakota was at 6¼ percent.

12 So, you know, all in all, some improvement, I
13 think, is the take-away.

14 MS. PARKER: Bruce, are these primarily for
15 single-family?

16 MR. GILBERTSON: Yes, I think Connecticut
17 actually uses -- it's a triple-A indenture, and they were
18 financing both the multifamily program and the
19 single-family program from one indenture.

20 On the short-term market updates -- and these
21 are updated as of last week -- four weeks ago we were
22 telling you that our daily resets were ranging between
23 1.3 percent and 8.25 percent. Last week, it was down to
24 0.4 percent to 8 percent. This week, they've been 0.5 to
25 8 percent.

1 All of those are benchmarked. Again, our
2 expectation -- our expectation, remember, is what the
3 interest-rate swap contract would produce for us on a
4 variable-rate payment.

5 Remember, we received the variable-rate payment
6 from the swap counterparty. This is the variable rate
7 payment that we're paying to the ultimate bondholders.
8 To the extent that there's differences between the two,
9 we have basis mismatch. And we'll give you an update on
10 that in just a moment.

11 So the liquidity and credit concerns are still
12 driving all of this. If you have good, clean issues
13 without bond insurance, a good liquidity name, and if you
14 have a strong long-term credit rating, the rates are
15 being reset quite well. And those would be the ones that
16 are 0.4, 0.5 percent on a daily basis.

17 Many bonds still remain with liquidity banks,
18 although our total has come down somewhat, which is good
19 news for us, there are still many, many banks that are
20 holding tremendous amounts of bank bonds.

21 New draws on liquidity facilities have all but
22 stopped, really. I could have changed that to more than
23 slowing down. It's all but stopped at this point. And
24 more, the bonds are being successfully remarketed so that
25 our total is now down to the \$648 million that we show at

1 the bottom of this slide. Just looking back to where we
2 were on October 20th, I think the update we were
3 reporting to you, that we had over a billion dollars of
4 bank bonds at that time.

5 Here's a picture of how the bank-bond portfolio
6 has increased over time. Remember, starting in the
7 middle of September, it peaked out the first or second
8 week in October. It's just under \$1.2 billion. And it
9 has gradually come down from that point, and is in the
10 \$640-million, \$650-million range today.

11 One more thing, we can certainly attribute
12 some of this to the poorly performing credits, the
13 short-term credits that the liquidity banks provide. I
14 point out on this slide a couple of things: That we have
15 total variable-rate demand obligations outstanding of
16 \$4,011,000,000. And of that, there's two that are
17 prominently causing us some stress.

18 DEPFA Bank, \$133 million, of \$134 million
19 issued, with their liquidity or 99 percent of all of the
20 bonds have been returned to DEPFA.

21 And the other one that we've talked most about
22 is Dexia. In large, part, it's our number-one, it is our
23 largest liquidity bank, with \$789 million in liquidity
24 facility attached to our VRDOs. And 43 percent of those
25 bonds, \$338 million, have been returned to the bank as of

1 yesterday.

2 So what's the impact on CalHFA? Again, this
3 slide should look familiar. We quantify this in terms
4 of the basis mismatch between the variable-rate payment
5 we receive from swap counterparties and the variable-rate
6 payments that we paid to the bondholders.

7 For the three-month period, from August 1,
8 2008, through the end of October, that has grown to
9 \$14.8 million.

10 You may remember at the last board meeting, we
11 reported that that was \$9.5 million for a two-month
12 period.

13 Just referring back to this slide, you can see
14 that during the October time-frame is when we had the
15 majority of these bank bonds outstanding. Not a surprise
16 that the basis mismatch has grown by over \$5 million.

17 And to compare -- again, not that the one-year
18 period from August 1, 2007, through July 31st of 2008,
19 was a stellar year for us, because it actually was the
20 year in which we had the highest basis mismatch ever to
21 date, but that was \$9.7 million for a full 12 months.
22 And we've experienced \$14.8 million in a three-month
23 period.

24 So ongoing liquidity stress is placed on the
25 Agency as a result of these things. Clearly, you've seen

1 that we have increased debt service due to the elevated
2 interest rates on \$4.2 billion of bonds.

3 The term-out provisions for bank bonds require
4 us to repay the loan to the bank sooner than we had
5 anticipated. A general rule of thumb is that 10 percent
6 of the outstanding bank bond balance will need to be
7 repaid on a semiannual basis.

8 The last two numbers at the bottom of the page
9 indicates the expected term-out payments that we're
10 projecting on February 1, 2009, and the potential amount
11 of term-out payments that would be due on August 1 of
12 2009: \$12 million and \$118 million, respectively.

13 MS. PARKER: Let me just say that I think what
14 we had talked with you about at one of the previous
15 meetings is to try to give you some kind of a time-line.
16 And Tim has supplied that and will be walking you through
17 that.

18 These numbers then tie to the time-line that
19 Tim will be walking you through today. So while what
20 Bruce has just said, because of the number of bank bonds
21 that we've been able to remarket, on almost half of them,
22 we're in an interest-rate mismatch situation but are not,
23 at the moment -- the clock isn't ticking on those to go
24 back in, have to start dealing with the amortization
25 issues.

1 We are, for that balance amount, in a battle
2 against time. And that is dependent upon the success of
3 some of the strategies that we will be walking you
4 through today. But we do want to make sure that you are
5 aware, but I think many of you had asked. And, you know,
6 we have to make some set of assumptions about whether
7 these things trigger or don't trigger; and if they don't,
8 then what is the impact to the Agency? And it will go
9 back to the financial impact to basis mismatch which is,
10 although certainly increasing, not as dramatic as if we
11 had to start making those amortization payments.

12 MR. GILBERTSON: Terri, do you want me to cover
13 this, or do you want to walk through this?

14 MS. PARKER: Yes.

15 MR. GILBERTSON: You mentioned some of this in
16 your opening remarks as well.

17 MS. PARKER: Right. Let me sort of give you an
18 update on some of the things that we have been working
19 on.

20 When we met last time, I think we told you
21 about the meetings and conversations that we had had in
22 Washington particularly with Fannie Mae. We had met as a
23 group, the National Council of State Housing Finance
24 Agencies, with Fannie Mae staff that work on housing
25 finance, to talk with them about, during the

1 circumstances of the financial market, things that Fannie
2 might be able to do to help housing finance agencies.

3 Then CalHFA met separately with one of their
4 senior VPs, Ken Bacon, to go through a letter that we've
5 all shared with you as far as our asks, which included
6 everything from additional liquidity to giving us letters
7 of credit, to buying our loans, to giving us basically
8 access as to bridge amounts of funds, to essentially
9 allow us to repackage and remarket some of these tainted
10 bonds for the next 18 months.

11 We had, as part of those discussions, also
12 always intended to go to Freddie Mac. We have not been
13 as successful in the past of going to Freddie Mac and
14 having any kind of partnerships or alliances with them
15 that we have with Fannie. But since both of them under
16 their authorizing legislation are responsible for dealing
17 with housing finance agencies, we wanted to basically be
18 responsible in sharing our asks.

19 So we had set up and had some initial contact
20 with some of their staff. And through those contacts,
21 as pointed out here, we have, in the interim, sent
22 tapes, first to Fannie, of over \$2 billion worth of
23 single-family loans in our portfolio, and about
24 \$200 million of multifamily loans.

25 We recently, last week, also sent these to

1 Freddie. So we have both Freddie and Fannie doing
2 evaluations of these loan sets to determine what they
3 would offer us from a pricing standpoint to purchase
4 them.

5 And then as Tim will show you later on, how
6 we propose to use that capital to deal with our tainted-
7 bond situation.

8 Fannie is far -- much further along in this
9 process than Freddie is. I think at the meeting that
10 we had on the second with my colleagues from Ohio,
11 Massachusetts, Colorado, it was as much an education
12 process as it was anything else.

13 We intend -- we had meetings set up, again, to
14 go back -- and the meetings that we started out with on
15 Monday morning were with the conservator's office of the
16 Federal Home Financing Agency. Their number-two person,
17 Mr. DeMarco and his staff. Where the HFAs went in and
18 talked about our problems, essentially reiterated the
19 same sort of a pitch that the housing finance agencies
20 never did subprime loans, we're the good guys. They're
21 impacted substantially because of the market that was
22 really created by all of these alternative financial
23 mortgage structures.

24 And even in the situation where now the federal
25 government is assisting those same banks, the housing

1 finance agencies are not assisted. And so we're really
2 looking for the GSEs to see if they can be helpful, not
3 only for the housing finance agencies, but to the extent
4 that they could come in and, for example, start buying
5 housing finance agency bonds, that that could be used as
6 a vehicle to jump-start that market, to have it start
7 writing itself to come back on-line, and, as Bruce has
8 said, to hopefully start getting investors back into it,
9 so they're not just retail investors for our bonds.

10 So the meeting on Monday for the staff of
11 FHFA -- boy, it's hard to do that -- as an aside, they
12 told us that they tried very hard to have that acronym
13 changed to something else.

14 But the meetings that our national association
15 has set up on the 8th and 9th, they've invited
16 Mr. Lockhart, who is the conservator and has agreed to
17 come and listen.

18 So this was an education process for staff that
19 will then go on to a briefing for him to be prepared to
20 meeting with us again on the 8th and 9th.

21 We've also asked Freddie to be available to
22 respond to our requests and ask at that time again.
23 So we'll hope that on the meeting on the 12th -- which
24 we'll talk about -- we will have more information to give
25 you on the status of those meetings.

1 So what we are waiting for now is to get prices
2 back. And our biggest concern is, you know, particularly
3 in the multifamily, these are our best loans. And, you
4 know, we would hope that they would get preferential
5 pricing.

6 On single-family, we would hope that we could
7 get something close to par.

8 The dilemma will be is if the response back
9 from Fannie is to give us a couple of haircuts, not only
10 because of many of these loans that they're looking at
11 are FHA loans, they don't buy FHA loans, they don't have
12 an exit strategy for FHA loans, but also because of the
13 real estate market in California.

14 So if it is a situation that they do agree to
15 buy them, but they offer us pricing that is substantially
16 out of whack from what our debt coverage is on them, then
17 we would have to go back and look at another plan. So
18 I'm giving you that context.

19 MR. GILBERTSON: So some of the other actions
20 that we've taken since the last board meeting, Terri
21 mentioned earlier that we -- you know, I found
22 \$25 million -- let me just explain a little bit. It's
23 little complicated. I didn't find it out there in
24 Capital Park or anything. But we had a situation -- and
25 I think we've talked about this some before, where we

1 have historically entered into investment contracts to
2 invest bond proceeds, whether mortgage-loan payments that
3 were received after making loans for periods of time to
4 hold them until we meet debt service.

5 DEPFA Bank, we've talked a lot about that
6 institution, was one of the providers of investment
7 contracts. It was in the summer of 2007, when they were
8 first downgraded, that we converted what were investment
9 contracts into what are called "repurchase agreements."
10 Fully collateralized obligations of the bank.

11 We elected -- because it seems to us that DEPFA
12 is a downward spiral and won't ever come back -- why
13 continue to have a relationship with them even if there's
14 collateral posting? There are some risks that we could
15 be presented with if there was a bankruptcy filing, and
16 the collateral could be caught up in that court. We
17 elected to just terminate these.

18 So by doing so, what we found ourselves with
19 was about \$25 million that are reserve-account
20 investments under our large single-family indenture. An
21 eligible investment of the reserve account is to buy
22 mortgage-backed securities of Fannie Mae or Freddie Mac.
23 The CSHOP program is a mortgage-backed security program
24 that we're using the guarantees of Fannie Mae.

25 So that's how we've achieved that. And at

1 least it's a start for that program. Hopefully as we get
2 into 2009, the market might present other opportunities.

3 A couple other things we did. The SMART loan
4 program, we modified it in a couple ways. One is to make
5 it more publicly available, and it's going to be on our
6 Web site, as I understand.

7 MS. PARKER: Just so you all know, the SMART
8 loan program is CalHFA REOs. We named that after Jerry
9 Smart, our -- because he made a pitch just before he left
10 to have us do a special program for these REOs. And so
11 much to the consternation of my staff, we named it the
12 "*SMART Program.*"

13 But these are, again, our attempts at dealing
14 with our own REO portfolio which, as I mentioned in past
15 meetings, that we moved some parts of our asset -- or
16 portfolio management on the single-family side over to
17 Chuck McManus in the risk group to essentially be able to
18 put -- and with staff -- more efforts on dealing with our
19 own REOs because the impact is on our balance sheets.

20 MR. GILBERTSON: Then the last bullet here is
21 Terri, Steve, Bob Deaner, and myself have had several
22 meetings now in the last week with the Department of
23 Developmental Services. Some of these meetings have
24 included the State Treasurer's office, as well as -- the
25 Health and Human Services, is it? What was that?

1 MS. PARKER: Right. California Health and
2 Human Services Agency.

3 MR. GILBERTSON: California Health and Human
4 Services Agency, to discuss opportunities that we might
5 have or other options to financing the Bay Area Housing
6 Program loans.

7 I've listed several of the bullets. One is
8 to seek potentially a legislative change to
9 credit-enhance the bonds with perhaps a moral obligation
10 of the State of California. We've had some
11 preliminary -- very preliminary discussions with the
12 State Treasurer's office about applying for a
13 Pooled-Money Investment Board loan. It would allow us to
14 warehouse the loans for up to one year or thereabouts,
15 taking them off our balance sheet, effectively so we
16 don't get the pain that Moody's is imposing on us as it
17 relates to that lending program.

18 We continue to talk internally and with the
19 developer about opportunities that maybe we could just
20 sell the loans outright. At this point, we haven't seen
21 a proposal that makes any sense or improves that in any
22 way.

23 Then the last item would be that we might have
24 to issue low-rated limited obligations of the Agency to
25 finance the Bay Area Housing Program, consistent with the

1 resolution that the Board is going to be asked to approve
2 later in this board meeting. I'll save that for that
3 time. That's Resolution 08-44.

4 So a lot of this is future action items that
5 you've seen before. We're still working -- the
6 single-family program, to implement program capability,
7 to deliver loans to Fannie Mae's window.

8 We're trying to secure a secondary market to
9 deliver FHA-insured loans.

10 In the Multifamily Program, Bob is working hard
11 to develop a program to become an eligible DUS lender,
12 "delegated underwriting lender" for the GSEs.

13 As we talked earlier, considering the sale of
14 single-family and multifamily whole loans.

15 Just to add to that a little bit, we expect
16 maybe next week to get the initial pricing from
17 Fannie Mae. Certainly we want to wait to get the
18 Freddie Mac pricing. We want to play them off one
19 another. And it will then take us a period of time to
20 really analyze that pricing and the impact on these large
21 indentures; that if we were to accept pricing, especially
22 if it was below par.

23 And so that's going to take us a period of time
24 to do that. But we should have --

25 MS. PARKER: Yes, and again, you'll see that on

1 our time-line.

2 MR. GILBERTSON: Yes.

3 Then the last bullet on here is, again,
4 concepts that we've laid -- thrown out to the State
5 Treasurer's office about perhaps a broader Pooled-Money
6 Investment loan for a variety of purposes. We have not
7 applied. We know the standard that we would have to meet
8 before we would ever go forward with such an application.

9 MS. PARKER: And basically what we know as
10 part of this, is to be able to demonstrate some sort of
11 exit strategy. How, if we used some of these bridge loan
12 credit structures, what would be our exit strategies for
13 us to essentially pay back that?

14 And so, as we were talking about, everything
15 that we are doing in these different discussions is to
16 try to see if we can find ways to answer those questions
17 that would, in that sense, document what would be
18 necessary to have a credible application.

19 So I can also maybe just tell you that we
20 continue to have -- Bruce continues to have weekly,
21 multiple weekly conversations with the rating agency
22 analyst at Moody's.

23 We have a meeting set with them in New York on
24 December 4th, and where we're going to go back and talk
25 with them and giving them a status of where we are on the

1 three items that are in our letter. So when we come back
2 again on the 12th, we will have a report on that.

3 We hope to be able to, at that meeting, have
4 them finish their work that they are doing on the status
5 and capabilities of our M.I. fund. We think that's, in
6 some respects, the best way to address their concerns on
7 the California real estate market.

8 Again, our strategies on our bank bonds,
9 clearly what we're talking about today and what we're
10 putting in place can address those issues on the part of
11 the rating agencies. And then to the extent that we have
12 this plan in place, for the Bay Area, irrespective of
13 whether we've actually implemented, but that we have a
14 strategy with a specific time-line. We can go forward.

15 We talked to Moody's -- I was in Bruce's office
16 on Friday, where they continued to ask the very in-depth
17 questions. It's almost, we feel like they are circular
18 in their discussions. We know that they are never going
19 to get to any comfortability on the Bay Area; and that is
20 the reason why we were coming forward with this
21 alternative strategy to you today.

22 And we think, again, that where we are at as of
23 right now, with our ongoing and future actions, are as
24 timely and as placed in the marketplace as we could think
25 to be.

1 MR. GILBERTSON: So the last slide and then
2 we'll turn it over to Tim.

3 But this list of bullets here are some of
4 the tactical solutions that can help us in debt
5 restructuring. Tim is going to cover this in more
6 detail, and you will see it in kind of picture form.
7 But we're continuing to work to try to convert
8 liquidity-backed VRDOs, to letters of credit where it
9 makes sense.

10 We're updating consolidated cash flows. In
11 fact, for the large Home Mortgage Revenue Bond indenture,
12 we have sent off all of the consolidated cash flows to
13 Moody's, including the stressed ones, which are high
14 prepayment and low-rate and low prepayment and high rate.
15 And there's a variety of things that we have to go
16 through, as well as some stress on term bonds --
17 term-outs on bank bonds.

18 Working with them, as Terri mentioned, on
19 capital adequacy. That's an ongoing effort.

20 We're hopeful that we can strip bond insurance
21 of some of the bond-insured VRDOs that continue to cause
22 us pain.

23 We have transferred or reassigned remarketing
24 agencies responsibilities on some of our bonds. That has
25 actually proven to be a positive. We're seeing the

1 better remarketing and lower interest expense.

2 With that, I think we'll just jump to the
3 bottom.

4 Tim has developed a bond-redemption/bond-
5 restructuring plan. I'll let him walk you through that.
6 And it includes the time-line.

7 MR. HSU: I thought that it is instructive and
8 perhaps good to create a context for all the things that
9 we're talking about by stepping back and thinking about
10 what exactly is our business flow. And on the left-hand
11 side here is normally what we expect to happen. And I
12 refer to this as sort of a virtual cycle. This is what
13 used to happen. We issue bonds, and we normally take the
14 bonds and we put it in through some sort of investment
15 with -- I think Bruce mentioned earlier that we had some
16 investment invested with DEPPFA. Sometimes we put a
17 little cash with the State's PMIA Board, and then we take
18 the cash and we make them into loans.

19 And this upper part here is really the part, I
20 guess, that gets the most headlines. If the new
21 production is when we come to you with our business plan,
22 we tell you how much we're going to do. And this is the
23 part of the business plan that you approve.

24 But without the lower half of this virtual
25 cycle, we wouldn't really be able to do this because as

1 these loans repay, normally, we park it in cash flow a
2 little bit, and then we pay back the bondholders. And as
3 the bondholders get accustomed to getting paid back, they
4 come back to buy more bonds. And this part is referred
5 to as "*portfolio management*."

6 So this is normally what we expected to happen
7 about six months ago. This is what used to happen.

8 And this is what's happening now. I think all
9 these writings here are in red.

10 So Bruce had talked to you --

11 MS. PARKER: Tim is color-blind.

12 MR. HSU: Yes.

13 I think Bruce has mentioned to you about the
14 high cost of the primary markets. So this is the box
15 here in which we're talking about the current issuers are
16 issuing bonds in the 6 percent to 6.25 percent range.
17 So all of this is attempting to sort of put the various
18 things we're talking about into these boxes. And you can
19 see how they flow through the system, if you will.

20 We talked about DEPFA and AIG getting
21 downgraded. An impact of that is that as they get
22 downgraded, we are taking money out of those financial
23 institutions and we're depositing with the State's PMIA.
24 And you might say, "Well, what's wrong with that?" Well,
25 what's wrong with that is that we're making some more

1 interest-rate risk, because the PMIA Board runs the
2 investment fund as if it were money markets. Meaning,
3 that if interest rates go down, we earn less money; and
4 if interest rates go up, we earn more money. But when we
5 had money invested with these financial institutions, we
6 had something called a GIC, which gave us a fixed rate of
7 return over time.

8 And this upper half here, because of primarily
9 things like this happening, and also the downturn in the
10 real estate market is causing more stringent underwriting
11 for new loans, so we are seeing less production as a
12 result.

13 So the new productions are getting impacted.
14 And then the portfolio management side -- the side that
15 if we run well, have the investors coming back -- is
16 also getting impacted, in that on the single-family side
17 we're experiencing extremely high delinquency rates,
18 which will come back -- I'll show you some historical
19 charts on that later on.

20 But it's worthwhile to mention this is
21 primarily the single-family side. On the multifamily
22 side, I think our delinquency rates are -- they are no
23 worse than what we had before, which is very, very good.
24 I think we had something like two or three loans that are
25 in some sort of fairly late delinquency. So this is

1 primarily addressing the single-family side. And as we
2 have high delinquencies, that means that we have fewer
3 repayments.

4 And this side is doing the same thing as what
5 is happening up there, meaning, that most of this cash
6 now is -- a lot of cash is going -- more and more cash
7 is going to the PMIA Board, meaning that we're taking
8 more interest-rate risk. And these are the bank bonds
9 that we talk about all the time. And since bank bonds
10 carry a higher interest rate than what they used to carry
11 than when they did money market funds, we now have higher
12 debt service to meet and also we have the term-outs to
13 meet that we talked about earlier.

14 So sort of simplistically, I think that we have
15 less that's coming in and more that's going out, which is
16 a squeeze, if you will.

17 I'll pause there.

18 I had presented this slide last time. And on
19 the left-hand side here, I presented this as the DNA of
20 the variable-rate financing. And I think I mentioned
21 that if any of these layers go sour, if you will, it
22 causes basis risk. So that \$15 million -- roughly
23 \$15 million of basis that we talked about, that was
24 experienced for the three months since 8/1/08, is because
25 of various pieces of this stack has gone bad.

1 And as I looked at that stack, I thought that
2 it might be instructive also to use that stack to
3 illustrate to you how our portfolio stacks up on that
4 stack. Because one of the things I mentioned last time
5 was that while, for example, auction-rate securities,
6 since the way that I stacked this up is that if the
7 bottom is not performing well, it doesn't really matter
8 what's on top. So in this case here, the auction-rate
9 security market is not functioning; so it doesn't matter
10 if we have, really, a fantastic hedge virtually halfway
11 up there. It doesn't matter because the bonds are really
12 not doing very well.

13 So from this illustration, you can see all the
14 things that we've been talking about, auction-rate
15 securities over here, and we still have almost
16 \$200 million of that.

17 We have insured bonds with the AMBACs and MBIAs
18 and the FSAs of the world of \$900 million, and then the
19 Dexias and DEPFAs of the world up here.

20 So what this sort of filters into is that we
21 have about \$2.6 billion of bonds that are performing
22 okay. They're doing fine. Except some of it does have
23 some Lehman and AIG swaps on top of them. And they're
24 actually doing fine, too, except that for rating
25 purposes, because of the downgrades, they don't count

1 when we do our stress cash flows. But nonetheless, you
2 could think that \$2.6 billion of bonds are still
3 performing fine.

4 And that was sort of the 2008 view and this is
5 sort of the microscope view, which I presented last time
6 in two slides, sort of what we're doing now and the
7 things we're proposing to do.

8 And this slide here puts the two of them
9 together. And I also attempted to print this in a legal
10 size for you so that you can see.

11 You can still see up here, but I think you can
12 see it here.

13 MS. PARKER: Lori, you weren't here last
14 time, so if you -- I don't think you were here last time.

15 MS. GAY: I wasn't, but I'm following this.
16 I can see it.

17 MS. PARKER: Please, if you have any questions.

18 MR. HSU: I'm moving pretty fast because I
19 think we want to get to the time-line because everybody's
20 waiting for that.

21 So one of the things that we talked about doing
22 last time -- we'll just go over it again -- is that
23 stripping insurance. So these green boxes here,
24 represented up here, are deals in which we're stripping
25 insurance; and we're hoping that after we're stripping

1 insurance, the bonds will continue to perform as they did
2 once before.

3 These x'ed boxes that you see here, these
4 weren't actually here last time. And that's my
5 oversight. These have transactions in which the
6 liquidity banks have not agreed to renew facilities.
7 So what we need to do is that we need to take our own
8 cash -- which I'll come back to at the end to give you
9 some sense of where our cash is and what we're using our
10 cash for -- take some of our own cash to either call down
11 the bonds in their entirety or meet some of the term-outs
12 that we're talking about.

13 So those are these three boxes.

14 And this box here, for example, is the Citi
15 box. That was a facility that expired on November 3rd.
16 So that actually went into bank bonds on November 3rd as
17 well.

18 So those are the x'ed boxes.

19 And then the orange boxes, I think that is
20 something that Bruce mentioned earlier as well, in which
21 we're converting the standby purchase agreements into
22 letters of credit. And, again, we're doing that because
23 we're thinking that, well, if we were to get downgraded,
24 these papers will continue to trade in the marketplace;
25 and we wouldn't have to come back to convert them to LOC,

1 after we get downgraded. Because just to refresh your
2 memory, that these papers aren't insured so they trade on
3 a long-term rating of double-A. If we get downgraded to
4 single A, they'll become sort of debt-ineligible so the
5 money market funds, we won't be able to buy them.

6 MR. GILBERTSON: Are you going to talk about
7 the swaps, too?

8 MR. HSU: Oh, yes, I'm sorry.

9 And then the swaps on top. What the previous
10 slide was showing when we talked about DNA, was that if
11 the bottom layers are not really functioning, the swaps
12 on top are basically irrelevant. And this is what we're
13 showing in more detail, that some of these cases up here
14 in which the swaps, on top of the red boxes, these are
15 swaps that we need to terminate at some point.

16 And then we also have boxes that -- I think
17 this is blue, but it looks gray to me -- blue boxes in
18 which these are Lehman swaps which are going to be
19 replaced because the bonds underneath these boxes are
20 functioning just fine.

21 So in total, I think that you can see in the
22 upper left-hand corner there, that of all these red boxes
23 that you're looking at, which for now has no tactical
24 solution, if you will, they amount to about \$850 million
25 in total. And of all the swaps that are in yellow, they

1 amount to a notional amount of \$366 million. And then
2 the mark-to-market is about \$33 million out of the money
3 to us, meaning that if we terminate that \$366 million of
4 swap, we have to pay \$33 million.

5 And, again, I'll show you where that cash is
6 going to come from later on.

7 Okay, and this is the time-line. This
8 time-line here is divided up into three sections. On the
9 very top here -- the upper section here, the upper deck,
10 if you will -- this represents the time-line of the
11 tactical solutions that you see on the previous page.
12 So you see that up here, where we're terminating swaps,
13 we're replacing swaps. And we think that we can
14 accomplish that in November.

15 And then these are the green boxes on the
16 previous slide, and we're showing that we're stripping
17 insurance. And we think that we can get those done in
18 the December and January time-line.

19 And these are the orange boxes in which we're
20 switching the standby purchase agreements into the LOCs
21 with BofA and Fannie Mae.

22 So this represents, again, just the time-line
23 of the tactical solutions from the previous slide.

24 And this middle section here, this is, it looks
25 like, a lot of arrows and complicated; but this is the

1 sale of the loans. And, actually, on the next slide I'll
2 show you -- we'll talk a little bit why it's necessary to
3 sell the loans, because I'm not sure if we have sort of
4 shown you why that's necessary.

5 But in any case, this middle section is talking
6 about the sale of the loans and what would we do with the
7 cash when we sell the loans. So what we will do is that
8 we would deal with the red boxes in the previous slide
9 that really has no tactical solution.

10 So, for example -- let's take this case with
11 less arrows. This here is representing the loans that we
12 have in the single-family world and what we would do with
13 the cash if you were to execute a sale. I think that we
14 mentioned that we sent the tapes to Fannie Mae for
15 \$2 billion. But chances are, we won't be able to sell
16 the entire \$2 billion. So what I'm showing here, just
17 for illustration purposes, is that if we were able to
18 sell in the single-family world \$590 million of those
19 loans, it would be used to take care of the red boxes on
20 the previous slide.

21 And again, I didn't see any tactical solution.
22 So this, in some cases, the loan sale is being sized to
23 dealing with the red boxes that we have.

24 And someone had asked me a question -- I
25 believe it was Terri yesterday -- that, well, what if we

1 sold more? If we sold, say, a billion dollars? Well, if
2 you sell a billion dollars of single-family loans, then
3 what I would do with that cash is that I would do this --
4 I mean, I think that we would proceed to do this. But if
5 we did have more cash, then it just means that we can
6 take care of these problems rather than stripping
7 insurance, which actually is a complicated process. So
8 this is the single-family world.

9 And the rest of these arrows are actually
10 representing what's happening in the multifamily world.
11 So these are the red boxes in the G.O. multifamily world
12 in the previous slide that has not been addressed. And
13 you can see that we have this row here is representing --
14 for example, this \$17 million -- these are representing
15 the conversion of multifamily loans from, let's say, a
16 construction or acq. rehab into a permanent loan, as
17 opposed to a construction loan is \$10 million and a
18 permanent loan is only \$4 million. That \$6 million
19 piece that comes in during conversion, that's what's
20 being represented in this row of conversion -- net
21 proceeds, if you will, that can be used to call down
22 these bonds.

23 So that's money that we'd expect to come in
24 over this time frame.

25 And then down here, this number here, this

1 number is representing that amount of multifamily loans
2 that we need to sell to deal with these red boxes that
3 are net of these payoffs from these conversions.

4 So I think that we mentioned that the tape that
5 we sent to Fannie Mae on the multifamily world is
6 roughly, as it turns out, very, very close to this
7 number. And that was somewhat serendipitous. But I
8 think that if we extract the premium price on those
9 loans, it can certainly meet this number over here.

10 And lastly, not related to any sale of loans,
11 I mentioned in the previous slide that we had banks that
12 have not renewed liquidity facilities, and we have to
13 take some of our own cash to, let's say, retire them.
14 And that represents about \$75 million of excess revenue
15 from our single-family indenture that would deal with
16 these two banks that have not renewed their facilities.

17 As the Citi facility is a G.O. obligation, so
18 that would take care of that in the sale of the
19 multifamily loans as well.

20 And the third section on here is an
21 illustration using a time-line of the renewals that we
22 have coming up this year, because one of the challenges
23 that I think we face in this coming year is that some of
24 these banks would have been more challenged to renew
25 their facilities going forward.

1 The two that we have coming up, fortunately, we
2 already have an agreement to renew them; but these,
3 that are coming up for the rest of the year, are going
4 to be a challenge to us. And one of the things that I
5 calculate on here -- by the way, this time-line is a
6 little bit truncated, just to save space and make it
7 more legible -- this is the \$4 million term-out that we
8 talked about earlier, that Bruce had talked about
9 earlier, that August 2009 we have to make a \$12 million
10 term-out. And this is primarily bonds associated with
11 DEPFA at about \$3.5 million associated with this term-out
12 of CitiBank of \$3.5 million.

13 This number here deserves a little bit more
14 explanation. This number assumes if we have to meet all
15 the term-out provisions of our existing bank bonds and
16 these facilities do not renew, what our term-out
17 obligation would be. So it's a substantial number of
18 close to \$120 million.

19 And the next slide you'll see how substantial
20 that number is.

21 MR. GILBERTSON: But, Tim, is it fair to say at
22 this point we believe at least some of those liquidity
23 banks will renew their facility? We won't be facing
24 cancellations on all of them?

25 MR. HSU: Yes.

1 MS. PARKER: I mean, I don't think we're saying
2 definitively that is the number. Again, I think what
3 we're trying to say is we've made a set of assumptions
4 here to give, you know, a point-in-time picture.
5 You know, if you look at the top -- the first and the
6 second, these are the strategies that we've been putting
7 in place for two months -- just two months, right, Tim --
8 to take care of these problems.

9 It's hard to say how creative and talented
10 we'll be at continuing to address what is then this
11 bottom, which is the next need to go to. But we also are
12 trying to essentially say to you the real-hard impact, if
13 we can't, is there.

14 CHAIR CAREY: At some risk, Tim, could you
15 explain "*stripping insurance*," what that means?

16 MR. HSU: Can you go to the slide with the DNA?
17 That one, the previous one, yes.

18 All bonds, no matter what kind of bonds it is,
19 trades on at least a long-term rate. So, for example,
20 if you were to buy a bond -- and this is part of sort of
21 the issue with the current financial crisis -- is that
22 most people rely on a rating that's issued by the rating
23 agency.

24 So no matter what kind of bond you buy, it has
25 to have a long-term rating, meaning, that it's a

1 representation of the issuer's ability to pay you back.
2 That's what the long-term rating really represents.

3 However, in our variable-rate world, there is
4 also a short-term rating. Because, for example, like us,
5 we have, let's say, one capability to pay you back that
6 facility -- I mean, pay you back the money that you
7 supposedly gave the insured -- gave the agency that's
8 \$100 million. And we have the ability to pay you back
9 according to the schedules that's enumerated in the
10 offering document. But variable-rate bonds are unique
11 in the sense that you also have the option to demand your
12 money back, let's say, overnight. You might say that,
13 "Well, I need to spend \$100 million on buying a country,
14 and now I need the money back right away." And that
15 short-term rating is being provided by the liquidity
16 banks.

17 Now, when we strip insurance, what we're
18 talking about is that the insurance company, like the
19 AMBACs and FSAs and the MBIAs of the world, they're
20 providing us a credit enhancement on the long-term
21 rating. That's why they're over here.

22 So the process of stripping insurance was
23 actually nonexistent until this year. Because everybody
24 who got insurance, part of the reason why they got
25 insurance on, let's say, their bonds was there was

1 assurance that it was irrevocable.

2 So as the insurance companies started being
3 downgraded, there were all these legal issues coming up.
4 I was thinking that, well, what does it mean for us to
5 even think about touching something that is meant to be
6 irrevocable?

7 So what we're trying to do now is that we have
8 to negotiate with insurers of basically taking their
9 commitment -- irrevocable, what was once an irrevocable
10 commitment on these bonds and take them away by revising
11 the documents, by issuing a new offering document and,
12 in many cases, actually creating a new queue set so that
13 they are actually, after we strip the insurance,
14 invisible to the new bondholders, so that their guarantee
15 on the old bonds is no longer good.

16 And you might think it's really insane because
17 it's almost like saying that, well, let's suppose that
18 Terri and I borrow money from you, and then I became a
19 criminal. And let's say my credit is now horrible. And
20 you said to me that, "Well, you know what? The two of
21 you together is actually worse than Terri by herself."
22 In a sense, well, even though I am a criminal, I may
23 still have assets; but you said because I am a criminal,
24 you no longer want my assets, which seems really insane,
25 but that's what people are asking for. People are asking

1 that two somehow is less than one, no matter who the
2 second person is.

3 So that's sort of, in a nutshell, the process
4 that we are going through this sort of laborious legal
5 process of documentation of saying, okay, here's all
6 documents in which AMBAC, for example -- AMBAC needs all
7 the documents, it's covered, it's in the documents,
8 they're covenants in all the documents. And we're going
9 through the process of basically removing them out of all
10 the documents, so that a new buyer comes along and says,
11 "You know what? I'm buying something that has no mention
12 of AMBAC."

13 MS. PARKER: I think that's the reason why Tim
14 was saying if we get additional cash from selling loans,
15 we're just going to pay off these debt instruments.

16 MR. GILBERTSON: Very challenging. There's a
17 lot of aspects to this.

18 And, of course, it opens up renegotiation with
19 some of the parties as we try to go through this
20 modification process.

21 MS. GAY: I can't help but note that this is
22 how consumers feel when they want to modify their loans.

23 MR. HSU: Does that help?

24 CHAIR CAREY: Thank you.

25 MR. GILBERTSON: So we're going to go to this

1 one, which is --

2 MR. HSU: Right.

3 I think at one of the presentations I made, I
4 think the Board members wanted to see before and after.
5 This is the same stack that I showed three or four slides
6 ago, except this shows what things look like after we go
7 through all our tactical solutions. But it does exclude
8 the sale of the loan for now. And I'll discuss that in a
9 second.

10 So basically, what this shows is that I think
11 that a couple slides ago, we showed that the bonds that
12 are performing well was only about \$2.5 billion. But
13 after we go through our tactical that we're dealing
14 with -- the green and the oranges and all that, all those
15 colorful things we're doing -- we actually gain about
16 \$700 million more bonds that are going to perform okay.

17 And I think I would also emphasize that if
18 we were to sell the loans, what we would do in the
19 time-line -- in the time-line I showed what we were
20 doing -- is that we're addressing the red boxes. And
21 these are the red boxes right here.

22 So if we were to sell the loans, what we would
23 do is this box here that we're talking about here, it
24 would just expand and become basically all of this. So
25 these are the things that we deal with when we sell the

1 loans, which is basically pay them off or redeem them.

2 And I thought that this slide is also
3 instructive in the sense that I think it answers a very
4 fundamental question, at least for me, of why are we
5 selling the loans. Because I think that you may have
6 heard more than once that we are a big agency with a big
7 equity of more than a billion dollars. And, indeed, we
8 have more than a billion dollars. And you can see that
9 this is a tally of -- it's obviously a very high-level
10 tally. If you look at the accounting standing, you see
11 all sorts of items that are indecipherable to the average
12 person.

13 So I basically filter all that stuff, and I
14 said, "Okay, of that \$1.1 billion of equity, how much
15 cash did we have and how much of that is in loans?
16 And what you can see is that at the very high level --
17 we'll come back to this in a second -- what you can see
18 at the very high level is that of that \$1.1 billion of
19 equity we have, we only have about \$470 million in
20 unrestricted cash.

21 And you might ask what's in this unrestricted
22 cash? We have reserves, for example; we have program
23 accounts, we have covenants of principal. We have cash
24 that hasn't been spoken for through the contract or
25 through the covenants, not cash that we can use to do

1 anything we want.

2 And so this sort of -- I think that -- I hope
3 what it does is answer your fundamental question, is that
4 that's why we're selling the loan, because we need to
5 convert some of the equity into cash so we can address
6 some of these issues that we didn't quite expect in the
7 past.

8 So looking at this amount of money that we have
9 and looking at it from the credit point of view, if you
10 look at the HMRB indenture, which is a single-family
11 indenture -- and this is the indenture we're thinking
12 about selling \$2 billion loans -- that the situation
13 seems to be quite extreme in the sense that we have
14 \$6.8 billion of bonds. But if you look at the cash to do
15 what we want with, it only represents 2 percent of that
16 liability and \$171 million.

17 And with that \$171 million, some of it has
18 been spoken for from some of the things that I've shown
19 you previously. For example, I talked about taking
20 \$75 million to deal with some of our standby purchase
21 agreements that have not renewed. So that would bring
22 you down to roughly \$100 million.

23 And if that situation in terms of renewals for
24 standby purchases for the rest of the year doesn't pan
25 out, I think that on the previous slide, we showed you

1 that we have about \$112 million, I believe, that will
2 term-out on 8/1. And what this does is that it divides
3 it up by credit, so that of the 8/1 term-out with HMRB,
4 that's a little bit more than \$100 million.

5 So you might think that, well, if those
6 situations were to pan out, this money would be wiped out
7 at the end of next year.

8 On the G.O. side, we have nominally more
9 cash -- well, let me step back and say that while this
10 money will be wiped out by the \$75 million in the
11 term-out that we might have to make, it certainly doesn't
12 come close to addressing these red boxes in the previous
13 slides. And that's why it's necessary for us to sell the
14 loans and address the red boxes, because we just don't
15 have cash to deal with these red boxes. That's why,
16 again, the sale of the loans are necessary.

17 And on the G.O. side, when I refer to "all
18 other cash abatement," little pieces of other sort of old
19 stand-alone single-family indentures, but they're not
20 really important in the grand scheme of things.

21 On the single-family side, we do have nominally
22 more cash of \$298 million. But that \$298 million is cash
23 that we would use to, for example, run the Agency. About
24 \$238 million of that is sitting in our Agency account,
25 and about \$60 million is sitting in the Multifamily III

1 indenture.

2 But, again, if we compare that number, though,
3 while it seems large, to all the things that we have to
4 do, related to the G.O. credit, it again sort of puts
5 it in perspective and shows why we would sell loans
6 again.

7 So the \$33 million is swap terminations we
8 talked about -- the yellow boxes. And what it costs for
9 us to get out of those yellow boxes is \$33 million, and
10 term-outs is \$28 million, that's about \$60 million. So
11 it would bring this number back down to about 230 or
12 240. And that number, again, is smaller than the red box
13 that we had to deal with on the G.O. side.

14 MR. GILBERTSON: It's probably a good time to
15 pause, anyway, because the next slides are -- do you want
16 to go to questions?

17 CHAIR CAREY: Questions?

18 MS. REDWAY: I think I actually followed
19 everything, and it was a very good presentation. Thank
20 you.

21 The cash analysis -- the way I understand it,
22 you're going to sell good bonds in order to pay off some
23 of the red boxes or the not-so-great ones. Can you talk
24 a little bit about what the cash analysis would be when
25 you're doing the selling and buying, what you want to

1 have in those unrestricted balances? In other words, the
2 analysis you'll do, about how much you should sell and
3 how much you should buy and how much cash you should
4 leave in those unrestricted balances?

5 Am I making sense?

6 MR. GILBERTSON: I think what you're asking is,
7 have we done an analysis that says --

8 MS. REDWAY: Well, what would be the process
9 for that? This is going to be very fluid.

10 MR. GILBERTSON: Right. So we have -- the way
11 I would explain it -- and Terri, chime in -- we start a
12 process every January, which is our business-planning
13 process for the year. That leads to the Board adopting a
14 business plan and an operating budget in the spring, in
15 May of each year.

16 I think as we go through this, one of the
17 things that we always look at is liquidity -- Agency
18 liquidity, not liquidity in the form of standby bond
19 purchase agreements.

20 I think we will be asking ourselves a lot of
21 those questions that you're suggesting at this time, in
22 January, as we look at all of the things we know.
23 Hopefully, by then, we'll have clarity on what the price
24 of some of these loans are worth, what the value is, what
25 we can do with that as it relates to debt-restructuring;

1 and then how much should we hold back in reserve to keep
2 the lights on is and pay the salaries?

3 I mean, our operating budget --

4 MS. REDWAY: Well, and just because we're in a
5 credit crunch, it seems like liquidity is a pretty
6 valuable resource --

7 MR. GILBERTSON: Cash is king.

8 MS. REDWAY: Yes.

9 MR. GILBERTSON: We've been saying that for a
10 long time.

11 MS. REDWAY: So I was just wondering if you
12 have any sense of what the proceeds should be --

13 MS. PARKER: Yes, I don't know that we have
14 that yet. But it's a little -- hindsight is great. If
15 the Board will remember, when we came back to them
16 starting in January, we essentially said we need to start
17 really conserving the use of our Housing Assistance Trust
18 Funds. And we made recommendations that the Board
19 approve to pull back substantial programs that we had for
20 the use of those funds in order to be building up some of
21 these reserves in these capacities going forward.

22 So the best way to answer your question is, I
23 think the analysis at that point in time will look at
24 what we think is reasonable percentages given the
25 uncertainty in the market.

1 MS. REDWAY: I don't know if you've had that
2 yet, but that's kind of the --

3 MS. PARKER: No, I think it's --

4 MS. REDWAY: No, you're doing a great job --

5 MS. PARKER: We're trying to --

6 MS. REDWAY: -- so I'm just asking --

7 MS. PARKER: If I did, I would tell you right
8 now it would be wrong for what it would be, what we'd
9 know two months from now.

10 But the plan would be at that point in time
11 to be giving you all of that, what would be our guess.
12 And, again, that would be policy considerations for the
13 Board, whether or not you feel that we should be more
14 conservative or whatever. Because, again, that goes
15 back to some of the things that we need to do.

16 You know, from a risk standpoint, moving
17 forward, I thought when we go forward with the
18 delinquency discussion on the loans, I would take a
19 minute because I think it was something that Tim and
20 Bruce mentioned earlier on, about there needs to be
21 tightening of our underwriting criteria. And I thought
22 I might ask Chuck -- Mr. McManus, our director of
23 Mortgage Insurance, who, obviously, is the person who
24 negotiates the relationship for reinsurance with
25 Genworth. And, you know, Genworth is fighting its own

1 battles in the financial market these days. And all of
2 the mortgage-insurance entities have retreated
3 significantly from where they are on their underwriting
4 criteria.

5 And so Chuck has been involved in trying to
6 negotiate with them what would be our reinsurance
7 contracts for 2009. And they are substantially changing
8 the parameters that we have been able to enjoy to the
9 benefit of our stakeholder groups and customers from the
10 standpoint of perhaps more flexibility in the
11 underwriting.

12 So, Chuck, I don't know if you want to come and
13 make some comments. But I think you can give them a
14 sense of the kinds of things that Genworth has come back
15 and been discussing with you about their preferences
16 relative to what have been our underwriting criteria in
17 the past year or so.

18 MR. McMANUS: I'll try and make this as simple
19 as I can. Basically, Genworth is very negative on the
20 State of California due to the drop in housing prices,
21 which estimates are 30 to 40 percent decline in the
22 housing prices the first half of this year. As a result,
23 they've limited their loan-to-value in the general market
24 90 percent of loan-to-value. They require 10 percent
25 down. They also have moved to appreciating borrower cash

1 into the deal -- in other words, out of the borrower's
2 own funds. And they're pretty much at a 5 percent
3 minimum. Our borrowers average approximately
4 1.75 percent cash out of their pocket into the deals.
5 So that puts us at a major conflict of being able to
6 serve our audience. And so we will probably end up at
7 3 percent cash out-of-pocket. I'm not sure -- that's at
8 their risk management committee, probably as we're
9 sitting here right now. And they also will restrict our
10 volume to maybe \$300 million, and our LTV, our
11 loan-to-value, to 95 percent.

12 That is still stepping out from where they are
13 with the rest of the market. So they respect the fact
14 that we have full document packages, we do serious review
15 and underwriting, and we reenter D.U. findings. We
16 reenter the data in order to get our own findings to
17 check them out.

18 But it's very tight. And all the mortgage
19 insurers have been downgraded significantly, and they
20 continue to be downgraded more. Their stock prices have
21 dropped to \$1 to \$2 per share.

22 So mortgage insurance, what's called "private
23 mortgage insurance," is in great distress. And the
24 availability of reinsurance for the insurance fund --
25 we retain 25 percent of the risk, and we reinsure 75 - it

1 is not what it used to be -- is at a minimum, I should
2 say.

3 So we will have to tighten our underwriting
4 guidelines. It will involve increasing required credit
5 scores, it will involve requiring borrower cash
6 out-of-pocket, and it will involve restricting total
7 loan-to-value to 95.

8 These, I know. I will know more tomorrow and
9 tomorrow, but by next week, as to what we can do with
10 reinsurance. And we need the reinsurance for rating
11 purposes, because we are a single state fund. It's very
12 good to have 75 percent of it reinsured.

13 If there's any questions, I'd be glad to share
14 with you what I know.

15 Yes?

16 MS. GAY: Kind of standard business-protocol
17 vision, what would you see? I mean, in my world,
18 small-scale, we'd set up a pool, we do seconds, so we
19 could avoid M.I. I don't see the State changing its
20 whole business platform, but are there any discussions
21 around ways to not have to be in the face of the M.I.
22 community as aggressively as we have been?

23 MR. McMANUS: Well, the Agency, because we
24 administer subordinate loan programs -- and we have a
25 responsibility to try and keep the borrower in the home

1 also. We have a conscience of not trying to overextend
2 people, which is what happened in the subprime fiasco.
3 So we underwrite the subordinate loans also. I mean, we
4 underwrite the first mortgage, but we have the total
5 debt, the total payments, and do all the ratio analysis
6 and so forth.

7 So using a subordinate loan will get you maybe
8 to 95 or 90, which will make it safer for the primary
9 mortgage insurer, which is what we do.

10 MS. GAY: Right.

11 MR. McMANUS: But we will still underwrite
12 based on total payments as a percentage of income and so
13 forth.

14 To the extent you can find the subordinate
15 loans, especially silent subordinate loans that don't
16 require payments and are paid at the end, when the loan
17 is paid off, that will help people qualify.

18 MS. GAY: Right.

19 MR. McMANUS: And I think that will be the
20 trend for affordable housing. There will be more
21 subordinate-loan programs making it possible. Because
22 there will be no private mortgage insurers taking that
23 risk. And even FHA is going to 3½ percent cash down.

24 MS. GAY: Absolutely.

25 MR. McMANUS: So it will get tighter. It's a

1 tough market.

2 Any other questions?

3 MS. PARKER: Thanks, Chuck.

4 MR. McMANUS: Thank you.

5 MS. PARKER: Bruce, do you want to go through
6 the last part of these just to give them some sense of
7 loan delinquencies on our -- this is our total loan
8 portfolio, so it's those loans that are both FHA and
9 conventional, which Chuck insures the conventional loans.

10 MR. GILBERTSON: I wonder, if we should --
11 before we go there, are there any other questions on the
12 restructuring plan and the whole time-line that Tim laid
13 out?

14 *(No response)*

15 MR. GILBERTSON: Everybody's good? Okay,
16 great.

17 The other thing I mentioned --

18 MS. PETERS: This is not a question. I just
19 wanted to say that was an amazing presentation. I've
20 never seen anything so complicated brought down to such
21 an understandable level. So I'm happy to say, I don't
22 have a single question. Great job.

23 MR. GILBERTSON: That's great.

24 Thank you, Ms. Peters.

25 The one other thing as we talk about these

1 charts -- and Tim is going to walk you through it --
2 there is a report in the binder section of your report
3 today, there's a four-pager that talks about
4 delinquencies, it talks about some of the insured losses
5 and uninsured losses as well.

6 MR. HSU: These are charts that we started
7 developing when the investors all started inquiring about
8 what's going on with the assets. I recall, there were
9 days in which, when we used to make investor
10 presentations, all we showed them is what is happening
11 on the bond side. And because there was such an
12 expectation that all these assets were performing well,
13 real estate was going up, people really didn't ask any
14 questions.

15 So when they started asking questions, we did
16 a lot of work to try to establish as long of a history
17 as we can of historical delinquency, because people were
18 looking to the past as a guide for the future.

19 So here, what we're showing is ten years of
20 delinquency information. And this is the total
21 delinquent ratio. So this is any loan that's more than
22 30-days delinquent which, in some sense, is a ratio that
23 exaggerates, if you will, the issue a little bit because
24 there could be loans that go 30-days delinquent and then
25 come back into current.

1 So we're showing four lines here. We are
2 showing ourselves compared to the quarterly Mortgage
3 Banker Association statistics that comes out quarterly.
4 So what you have here is this line here, which I believe
5 is in red, is the Mortgage Banker Association's
6 California FHA fixed-rate loans. And what you can see is
7 that, traditionally, we do better than that survey; but
8 recently, we have sort of crossed over and are becoming
9 worse than they are. But from a credit point of view,
10 since all of these loans are insured by FHA, you might
11 sort of make the strong argument -- and it's an accurate
12 argument -- that the fact that it crosses over looks bad;
13 but from a pure impact to the Agency, it's not very
14 important because we get paid off by FHA.

15 What's more important is what's going on with
16 the loans that we have, which are conventionally insured,
17 which is predominantly insured by Chuck's M.I. fund.
18 And here, it is a better story in the sense that this
19 line here is the MBA's California prime index. And this
20 line here, I would have to say, the prime, though, does
21 include fixed-rate and bonds. So if we compare ourselves
22 to that line, traditionally, we do -- I'm sorry, this
23 line, I've got it wrong.

24 MS. GALANTE: The green line is the --

25 MR. HSU: I'm sorry, that's what happens when

1 you're color-blind.

2 This line here is the MBA's California prime.
3 And, traditionally, we do worse in that. That's why
4 we're higher than them. But as you can see, recently we
5 have sort of crossed over, in which we actually are doing
6 better than they are.

7 And I mentioned earlier that these are
8 quarterly statistics. That's why their dots don't extend
9 out as far as ours, because we're now waiting for the
10 third quarter to come out. So this is the line here
11 that's making us a little bit more worried, because this
12 is the direct impact to Chuck's insurance business, and
13 Chuck's insurance business could potentially impact our
14 G.O.

15 The one other thing I would add about the sale
16 of loans, I know I explained the sale of loans in the
17 context of dealing with other boxes that I have; but the
18 other thing that's really important to remember is that
19 if we raise cash and we deal with the boxes, that's
20 fantastic. But what's also really great is that taking
21 the loans off our books would mean that it would release
22 pressure from our G.O. because when we hold loans on our
23 books, they get marked down for rating purposes by
24 haircuts. So we might be holding on to, let's say, a
25 billion dollars of single-family loans. From their point

1 of view, it's not worth a billion dollars.

2 So if we take a billion dollars of loans and we
3 realize a billion dollars cash and we're dealing with
4 a billion dollars of variable-rate bonds, we can also
5 release, let's say, the amount of haircut that the rating
6 agencies would place on that billion-dollar loan.

7 So suppose the haircut is 25 percent. It just
8 means that we saved \$250 million out of our G.O.
9 capacity.

10 MR. MANDELL: I have a question for you. On
11 the CalHFA conventional loans line, the lower of the red
12 lines, August 2003, that level is where we're at now.
13 Did the agency do anything at that time to address that?
14 And if so, what?

15 MR. GILBERTSON: I think if you remember back
16 to 2003, what really happened then is, that's when we
17 fell to historic lows in interest rates. And I think if
18 you took a poll of people in this room, you'd find that a
19 pretty high percentage of people refinanced their
20 mortgages in the summer of 2003. I know, I'm one of
21 them.

22 So I think it was really more convenient that
23 there was cheap access to refinancing capital in a vastly
24 appreciating California housing market.

25 I don't know what led -- the more interesting

1 question to me, Mr. Mandell, is what led to the higher
2 delinquencies earlier in 2003.

3 I don't know if Chuck has any sense.

4 MR. McMANUS: I wasn't here in 2003.

5 MS. PARKER: Well, maybe one thing --

6 MR. GILBERTSON: But you can see it also
7 occurred in the FHA portfolios.

8 MS. PARKER: Yes, but one of the things that
9 I think might be interesting to point out is, this
10 doesn't really give you a sense of the percentage of the
11 portfolio that is FHA versus conventional.

12 MR. GILBERTSON: Right.

13 MS. PARKER: And while -- Chuck, correct me if
14 I'm wrong -- while those delinquency rates are higher,
15 the number of loans that we had, that were conventionally
16 insured by the Agency, was probably less --

17 MR. McMANUS: Very small.

18 MR. GILBERTSON: Very small. Less than
19 20 percent, probably. Probably 15 to 20.

20 MS. PARKER: So if you look at those lines,
21 while they were high, the number of loans that we had is
22 nothing like the number of loans that are in our books
23 now.

24 MR. McMANUS: It would almost be --

25 MR. MANDELL: So less exposure at the time.

1 MR. McMANUS: It would almost be an adverse
2 selection that was still on the books, because everyone
3 else, with the rising prices, refinanced.

4 MR. MANDELL: Okay.

5 MR. McMANUS: So what you were left with were
6 people that didn't qualify for refinancing. They were
7 delinquents, et cetera.

8 MS. PARKER: Right.

9 But from the standpoint -- the delinquency at
10 that point in time, at FHA, was much more representative
11 of what was happening with the loans. Although, in that
12 sense, because we had FHA coverage, the Agency in and of
13 itself wasn't impacted.

14 MR. MANDELL: Thank you.

15 MR. HSU: I will emphasize that these are total
16 delinquent ratios.

17 So on the next slide what we show is basically
18 that same information, except we now only show loans that
19 are 90-days-plus delinquent.

20 So the scale is almost the same. On the
21 previous slide, the scale went up to 15 percent. Here,
22 it only goes up to 10 percent. But you can see a big
23 sort of compression of these lines coming straight down.
24 But though the nominal delinquency ratios are much lower,
25 you can see sort of the relative relationships of these

1 terrible rates is pretty similar.

2 Next slide.

3 MS. PARKER: The next slide is really --

4 MR. HSU: Yes, we have various breakdowns of
5 these slides.

6 The previous two slides are sort of giving
7 people sort of a fairly global view because we group all
8 the FHAs together, we group all the conventionals
9 together.

10 But these next two slides are some of the
11 slides that we have to try to address what is the
12 underlying cause or what is the underlying trend that
13 makes some of these statistics rational or makes sense.

14 And one of the breakdowns that we do is by loan
15 type. And you can see that -- and this slide does tell
16 half the story but -- it doesn't tell the complete story,
17 which I'll tell you -- this slide here, ostensibly what
18 it shows is that these I.O. loans that we have are far
19 more delinquent than any other loan types. And that
20 would actually jibe very well with what you hear in the
21 popular press that, oh, all these I.O, interest-only, and
22 ARM stuff is what's getting people in trouble.

23 MS. PARKER: Although these were not adjustable
24 rates.

25 MR. HSU: They were not. That's right.

1 MS. PARKER: They were fixed rates.

2 MR. HSU: They were still all fixed-rate.

3 But part of it is that some of the things that
4 truly matter to underlie some of these charts, which we
5 can show you more, if it interests you, is things like
6 vintage, for example. As it turns out, a lot of these
7 I.O.'s that are showing delinquency are from the 2005
8 vintage or 2006 vintage, which is something that you also
9 see in a conventional space, because that's basically
10 when the market, the real estate market, peaked.

11 So a lot of this is vintage-driven, and some
12 of it is also driven by LTV, for example. Some of the
13 things that Chuck had talked about in terms of how much
14 of the purchase price we financed.

15 So some, as we have done a very in-depth
16 analysis to show that some of these loans that we've seen
17 in the I.O. world, as it turns out, they have higher LTV
18 ratio than these other loan types.

19 And some of it could be addressing the
20 underlying, let's say, situation of the borrower:
21 Someone that goes into I.O. perhaps is more inclined,
22 more disposed to stretching his or her finances more.
23 And that could be underlying some of these trends you see
24 here.

25 Because you can see that the more traditional

1 product that perhaps I like is the 30-year loans, it has
2 the statistics that's sort of hitting the -- lower than
3 all these other loan types.

4 And this, again, is the total delinquency,
5 which shows that everything that's more than 30-days
6 delinquent shows up on this chart.

7 And the next chart, we again look at the same
8 chart, except this time we're looking at loans that are
9 more than 90 days delinquent. So that shows that all
10 these ratios, again, are getting compressed, so that
11 they're much lower.

12 And these are the loans that we truly, truly
13 worry about because these are the loans that perhaps are
14 either already in foreclosure or they're headed for
15 foreclosure. And these are sort of the population that
16 we're most concerned about.

17 But it's still basically the same story, that
18 the I.O., the 5/35 I.O. product that we have, is the loan
19 product that's sort of, from this point of view, causing
20 most of the pain on that. Because in the first two
21 slides that I showed, basically those are the averages of
22 these lines.

23 MS. GALANTE: So I was just trying to
24 understand a question that Terri started to get to but
25 I don't think we fully addressed.

1 So of the obviously higher-risk ones or the
2 interest-only, what proportion of our portfolio is in
3 that versus these other loan products that are, you know,
4 still incredibly low delinquencies, actually, even, in
5 this time.

6 MR. HSU: That's actually in the packet.

7 MR. GILBERTSON: Yes, I think if you look on
8 page 215, it's in the report.

9 At the time we produced this report, for
10 purposes of preparing your Board binder, we had July
11 delinquencies.

12 I think this had August delinquencies.

13 But you'll see at the bottom of page 215 the
14 interest-only. There's 5,300 loans for 1.5 -- almost
15 \$1.6 billion of principal balances.

16 MS. GALANTE: Thank you.

17 MR. GILBERTSON: 24 percent.

18 MS. PARKER: And, you know, as you're aware,
19 that is a program that we suspended the first part of
20 September.

21 MR. HSU: And the last thing --

22 MS. PARKER: If --

23 MS. HSU: I'm sorry, Terri -- the last thing I
24 would say about these charts --

25 Bruce, can you go back to that chart with that

1 circle?

2 MR. GILBERTSON: Which one?

3 MR. HSU: The circle.

4 MS. PARKER: The circles?

5 MS. REDWAY: There were circles?

6 MR. GILBERTSON: I can read his mind.

7 MR. HSU: Or should I say that this is a
8 hexagon.

9 So the delinquencies -- I just want to kind
10 of put things in these boxes. For me, the delinquencies
11 that we're talking about on these last four charts are
12 here, so that it's causing us to have fewer payments.

13 MS. PARKER: But I think that's -- let me just,
14 sort of to summarize that, I think that if you keep this
15 diagram in mind and look at the different things that we
16 are trying to do to help on various fronts for the Agency
17 to manage our way through this, that we are managing both
18 above the line, from a new-production standpoint, but
19 also very much below the line on portfolio management.
20 Both, in the air, is the dealing with the investment
21 instrument, the debt-management part, but also the
22 portfolio management of the assets on our books. You
23 know, trying to -- again, as I mentioned earlier with
24 Chuck, add additional resources and staff to be selling
25 our REO properties in this market. To be adding

1 additional staff, to be working with the borrowers to try
2 to have them be successful and being current on their
3 loans.

4 So, you know, it is a multi-pronged approach
5 that each and everyone of them can contribute to the
6 bottom-line success of the Agency.

7 In closing, I did want to add one last comment.
8 We have in the past, in our discussions as a group,
9 there's been questions about, you know -- and I said some
10 of what we have been doing on the Agency's part of going
11 to the federal government and asking for assistance,
12 particularly in the forms of the GSEs, but I wanted --
13 and I think a couple of you have asked the State in
14 totality, are they doing anything with respect to making
15 a pitch to the federal government around housing. And
16 I don't really have any details to it.

17 But, obviously, the Governor spoke out
18 yesterday about the impact to the State's municipal
19 market of which we are part of. But the State
20 Treasurer's office is also involved in asking issuers --
21 CalHFA is one -- around the state of California,
22 Metropolitan Water District, there's a number of
23 issuers -- to sign on to a letter to the leadership in
24 Washington, the leadership of Pelosi and Senator
25 Feinstein and Senator Boxer, Congressman Barney Frank --

1 to essentially point out the problems to issuers of
2 municipal-type bonds and, you know, as far as doing our
3 missions and our public service. So we will be signing
4 on to that letter. It should be going out sometime next
5 week.

6 So, again, I think we are across this state
7 holding hands of looking at ways to have many voices in
8 a choir to be preaching the same sort of mantra.

9 MS. GAY: Thank you. That's exciting to hear,
10 too.

11 I guess the main thing that I take away from
12 all of this is how important it is for all hands to be
13 on deck. And I want to just encourage that, as you look
14 at new, more expanded distribution strategies with your
15 own REO, with vetting new types of buyers who are
16 stronger -- which is what Chuck was describing -- that
17 you don't leave out the people on the ground.

18 I think there's a huge opportunity, given all
19 the conversations I'm in nationally as well for the
20 not-for-profit sector to really stand on its best laurels
21 through this process and help vet the best of the best of
22 the best and the brightest and strongest candidates,
23 whether it's in the new purchase market and/or in
24 preserving homes for the families that can do it.

25 And so I put that out there, the Agency has

1 been a leader already. But I think even on the REO
2 distribution, there's huge ways that a lot of us can be
3 more helpful. And it's just knowing exactly what the
4 Agency wants to get done and how we bring that to bear.
5 And that doesn't mean we do the work even, per se, but it
6 may be pointing you to people who can help facilitate the
7 distribution strategies you need on the ground.

8 MS. PARKER: I agree. I mean, the
9 partnerships, particularly with the size of our state,
10 and the ability to get at those impacted populations.

11 You know, when I've been back in Washington,
12 I've said this a number of times to people, while they
13 think about California as being just something that is
14 so -- you know, the way they act, it would be like the
15 properties that we have, have no value whatsoever and
16 that it's just decimation. And I point out to them, even
17 with what we are doing right now, which is higher FICO
18 scores, lower loan-to-values, high interest rates even
19 that we're charging, we're dealing with between a million
20 and a half and two million dollars a day in business.
21 That means that there are people out there that are
22 taking advantage of the affordability that hasn't existed
23 for well over a decade --

24 MS. GAY: Absolutely.

25 MS. PARKER: -- and want to be able to buy a

1 house.

2 MS. GAY: Yes.

3 MS. PARKER: And so I keep saying, we need to
4 be there to help take advantage of this point in time.

5 Ms. Javits?

6 MS. JAVITS: I had a few questions. Thank you
7 for this outstanding presentation, and I agree with the
8 comments that Lori made.

9 And it is still really complex, so forgive me
10 if these are pretty simple-minded questions. But I just
11 wanted to ask a couple things.

12 One: If I understood you correctly, there's
13 outside potential liability of \$118 million in 2009.

14 Is that fair?

15 MR. GILBERTSON: Yes, the term-out -- the
16 projected term-out payments on August 1, 2009, are
17 \$118 million.

18 MS. JAVITS: Right, right.

19 MS. PARKER: Carla, but that doesn't include
20 what we will be experiencing for continuation of basis
21 mismatch that Bruce also gave you some numbers of what we
22 know about to date.

23 MS. JAVITS: And that could be, roughly, up to...

24 MR. GILBERTSON: Well, based off October as a
25 standard -- and I don't think that should be the standard

1 we use -- we had a \$5 million basis mismatch in a
2 one-month period.

3 MS. JAVITS: So up to sixty?

4 MR. GILBERTSON: That would project to 60.
5 That, I believe, would be on the high side.

6 MS. JAVITS: So I'm just trying to get some --
7 just as a Board member -- just some sense of the relative
8 range of potential liability, and I guess in relation to
9 our ability to deal with that. So I'm hearing the very
10 highest end could be about \$180 million, but you wouldn't
11 anticipate that.

12 So, I mean, I'm just trying to get just some
13 sense in terms of just trying to be a fiduciary steward
14 of what the range of potential liability is and what the
15 Agency's ability to deal with that is.

16 MR. GILBERTSON: Okay, I think that's fair from
17 an outside range. I was hoping to avoid further
18 complications.

19 MS. JAVITS: I'm sorry.

20 MR. GILBERTSON: But we spent the last week
21 or so working with bond counsel, and they're both
22 represented in the audience today.

23 To take a look -- we drafted -- we asked them
24 to draft a memorandum on bank bonds. The primary purpose
25 was to share it with the rating agencies, so that they

1 had a sense of where the priority of payments lie. And
2 it becomes very, very complicated, very, very quickly.
3 But let me try to take a stab at it. And I would
4 certainly ask for representation, if I'm incorrect, that
5 you clarify -- Stan or Dan.

6 You know, the general-obligation credits of the
7 Agency, the Multifamily Program, what we call the Housing
8 Program Bond, pretty clear-cut. If we have bank bonds,
9 we need to pay the interest, we need to pay the principal
10 as it was scheduled originally or as it comes due over
11 time.

12 If it becomes bank bond and is termed out more
13 quickly, we need to do everything we can to make sure
14 that happens. Bad, bad things happen if we don't.

15 You know, and for the much larger program,
16 the HMRB program, which is where the majority of that
17 \$118 million resides, the priority of payments under that
18 bond indenture and the related standby bond-purchase
19 agreements is a little bit different.

20 What it really does within that indenture is
21 that all of the cash that is in the indenture, that is
22 either from prepayment of loans or excess revenues --
23 and Tim did walk you through that -- become caught up,
24 and can effectively only be used to term-out these bank
25 bonds.

1 It isn't a negative thing -- an incredibly
2 negative thing for the Agency if we don't have the
3 \$118 million of cash on 8/1/2009. We aren't in an event
4 of default by the big definition of an "event of
5 default"; and it simply rolls forward to the next
6 semiannual period. And they would effectively have a
7 priority to have them termed out what would be 2/1/2010.

8 MS. JAVITS: Okay.

9 MR. GILBERTSON: Fairly accurate?

10 MR. DIRKS: Fair enough.

11 MS. JAVITS: That's helpful. Thank you.

12 MR. DIRKS: If I might?

13 MS. PARKER: Stan?

14 You all know Stan Dirks.

15 MR. DIRKS: Thank you.

16 The perspective on that \$118 million number is
17 that there may be a lot of money from the cash flows that
18 Bruce was talking about that, on balance, would be just
19 fine to put against that number, to use to pay that
20 number. There are a fair number of uncertainties as to
21 how much of that cash flow will be available, because we
22 don't know how fast single-family loans will prepay over
23 the next year.

24 If prepayment rates go up, that 118 million
25 might be easy to pay. If prepayment rates stay low, it

1 will be more difficult; but there still will be some
2 money available, within the indenture, to pay that
3 amount. So that \$118 million is really a very outside
4 number. I think that's --

5 MR. GILBERTSON: Correct.

6 MR. HSU: I think that if we were to do the
7 sale of loans and get rid of these red boxes, this number
8 would be about \$70 million rather than \$120 million.
9 And so what that would represent, that \$70 million
10 represents, basically, is the term-out for the failure to
11 renew these facilities here. Because that \$120 million
12 minus \$70 million, or \$50 million, represents the
13 term-out of all these red boxes.

14 MS. JAVITS: Right. So if I could just ask
15 two other quick questions.

16 CHAIR CAREY: Yes.

17 MS. JAVITS: One is, so I guess in relation to
18 that -- and I appreciated how you showed in the circles
19 kind of where the foreclosure issue kind of comes to
20 play. Let's say foreclosure rates for us really continue
21 to sort of -- or start ramping upward. Can you just give
22 us some sense of what that means in terms of the scenario
23 you just laid out?

24 MS. PARKER: Well, I'm going to start in a
25 little bit. I mean, we would have to go back and look

1 at, are the foreclosures FHA loans or are they
2 conventional loans?

3 MS. JAVITS: Right.

4 MS. PARKER: If they're primarily FHA loans --

5 MS. JAVITS: Yes, but let's say they're not.

6 MS. PARKER: If they're conventional loans,
7 then it is -- you know, it's a situation where if we go
8 through and we start doing refinancing -- or, you know,
9 those are REO and we sell them, we have to look at what
10 is the return that we can get on those properties. And
11 that's something that Chuck is doing some analysis on
12 because it not only -- you know, how much is covered --
13 and that has several categories that can impact us, too.
14 If it is -- if we have reinsurance on those loans, then
15 we're going to get some amount from Genworth.

16 MS. JAVITS: Right.

17 MS. PARKER: If we do not, and it's covered out
18 of our GAP policies, then there is a bigger hit to the
19 Agency. And if the property is -- the return on the --
20 when we resell the property, if it is really low, then it
21 could have an impact actually on our reserves that are
22 against our indentures.

23 MS. JAVITS: Right. So thank you.

24 And so that leads to my last question, which is
25 sort of on the positive side of the ledger, in terms of

1 what business the Agency is now doing. I just wanted to,
2 just at a high level, have some sense of that. If
3 somebody were to ask me, you know, "So what's the Agency
4 doing now?" I heard Terri say, "We're putting out
5 \$1½ million to \$2 million a day in business." I heard
6 you talk about the SMART program. I heard you talk about
7 the C-S-H-L-P -- the "CSHLP" -- I love that name --
8 program. And then, obviously, we have something on the
9 Multifamily --

10 I mean, can you just give us just a high-level
11 sense of what positive business the Agency is doing now?

12 MS. PARKER: Okay. We are offering a 30-year
13 fixed-rate loan that we have designed; and we are working
14 through with Fannie Mae that is not, at this particular
15 point, dependent upon our ability to sell bonds.

16 MS. JAVITS: Right.

17 MS. PARKER: So that we can essentially make
18 these loans and then sell them directly to Fannie Mae.
19 And I think the ratios of the loans that we are doing now
20 are still primarily conventional-rate loans, although
21 there are some FHA in there.

22 And so part of it, as we noted in our documents
23 here, that we also need to work in as an exit strategy,
24 either with Fannie or some other way, that we could sell
25 those FHA loans because Fannie will buy the conventional.

1 And this is not an issue that's just unique to CalHFA.
2 All of our housing finance agencies are talking to Fannie
3 about a source for selling these FHA loans because of
4 what has happened with the access to mortgage insurance.
5 But we are only doing that as a first mortgage loan. And
6 the only down-payment assistance that we are offering is
7 that that is funded by bond funds. We are not -- any of
8 the programs that we used to use, our Housing Trust
9 funds, we have suspended those; and to preserve those
10 funds to deal with our portfolio and debt-management
11 problems.

12 We are continuing to offer this SMART program.
13 It is also within a constraint. It has \$25 million total
14 to it. So the interest rates that are on that are part
15 of, again, what Bruce has structured, you know, within
16 the financial structure.

17 And the Housing Stabilization Program, now,
18 that's the one program that I would say it's unique.
19 That will all be on Chuck's M.I. It's all going to be
20 conventional loans because we are offering 100 percent
21 loan-to-value. So it won't qualify for reinsurance or it
22 doesn't qualify for FHA.

23 So right now, at the moment, the one loan that
24 probably has the most risks associated with it are those
25 loans. But, again, you know, Chuck and his folks are

1 going through and doing all the underwriting.

2 And the other part that we think is very key
3 to why we still think this is a very successful model is,
4 with the banks giving us those properties at 12 percent
5 what is below current value, the concern is that, you
6 know, if there was a need to refinance or for it to be
7 given back, at least we have value built into that loan
8 that we're making right now.

9 MS. JAVITS: So is that -- what's the volume
10 there?

11 MS. PARKER: We've done about \$4 million so far
12 of those loans, and the majority of that has probably
13 been done in the last month.

14 MS. JAVITS: And is that included? Is the
15 \$1½ million to \$2 million a day just a 30-year
16 fixed-rate?

17 MS. PARKER: No, that would include those
18 loans. It includes all of our loans.

19 MS. JAVITS: Okay.

20 MS. PARKER: You know, I would say that we have
21 some loans that we are doing that are under -- and we'll
22 talk a little bit about this later in one of our issues,
23 resolutions that we have -- or not resolutions, but one
24 of the issues we want to bring forward -- we still have
25 some loans under our agreements with, for example, the

1 Self-Help Builders, where they brought forward
2 commitments at specific rates. And so those loans that
3 are delivered then, we are honoring that commitment to
4 them.

5 MS. JAVITS: Okay, thank you.

6 MS. PARKER: But there is, you know, nothing
7 else.

8 And, you know, I think on the Multifamily side,
9 I think you will remember the Board meeting that we had
10 in September where we essentially talked about -- and
11 really made some changes to the resolution -- that was
12 a big change for you all from the standpoint of the
13 resolutions that we had in the past. And there was
14 really only one deal. And we are trying to go back and
15 work on that because it doesn't sort of hold in the
16 current environment. But those deals and the interest
17 rates were predicated on what was happening with the
18 marketplace.

19 So we are continuing to work on them, work with
20 those partners. If those people have alternative ways
21 for them to do this, we're assisting them in any way we
22 possibly can.

23 MS. JAVITS: Thank you.

24 MR. MANDELL: I have just a quick question
25 about what you were saying on the new program where we

1 would be buying or doing the financing on the homes at a
2 12 percent reduction on the loan, the value of the
3 property.

4 Wouldn't that, on the natural then, allow
5 you to meet the test, Chuck, of a -- what did you say,
6 95 percent loan-to-value, or even 90 percent
7 loan-to-value?

8 MR. McMANUS: The rule is the lower of the
9 selling price, you know, or the appraised value. And,
10 therefore, the selling price sets your 100 percent. So
11 you still need the 5 percent reduction.

12 MR. MANDELL: Okay. Thank you.

13 MS. PARKER: Mr. Chairman, unless there's any
14 questions, I might suggest that we give our scribe a
15 break, and we'll get on with the other items that we have
16 before you.

17 CHAIR CAREY: Okay, we will recess for about
18 ten minutes.

19 *(Recess taken from 11:27 a.m. to 11:45 a.m.)*

20 CHAIR CAREY: We are back in session.
21 And we are going to rearrange the agenda slightly and
22 take up Item 6 next.

23 //

24 //

25 //

1 **Item 6. Discussion and possible action regarding**
2 **loans under the Agency's Self Help Builder**
3 **Assistance Program**

4 CHAIR CAREY: Tom, do you want to give a
5 preamble?

6 MR. HUGHES: Yes, Item 6, regarding Self Help
7 Builders Assistance Program, raises a potential conflict
8 of interest for Mr. Carey as he is employed by Self-Help
9 Enterprises, which is one of the participants in that
10 program.

11 We have discussed this and have concluded that
12 under the provisions of the Government Code regarding
13 conflicts of interest in contracts, and specifically
14 Government Code section 1091(b)(1), that as an
15 officer/employee of a nonprofit 501(c)(3), that that
16 interest would be what is called a "remote interest."
17 And so long as it's disclosed to the Board and that
18 disclosure is put on the official records of the Agency
19 and so long as Mr. Carey then basically doesn't
20 participate, doesn't vote on that matter, that that's an
21 acceptable process. So I believe Mr. Carey will put that
22 on the record and will remove himself from participation
23 in this matter.

24 CHAIR CAREY: Right. Thank you, Tom.

25 That being said, I'm going to recuse myself and

1 actually leave the meeting. And I've asked Board Member
2 Carla Javits if she would chair the discussion on this
3 issue. And I will leave.

4 Thank you.

5 *(Mr. Carey left the meeting room.)*

6 ACTING CHAIR JAVITS: Very good.

7 Are we going to have a presentation?

8 MS. PARKER: Yes, we are.

9 I'm going to swing around here and ask Gary
10 Braunstein to join me.

11 This item begins on page 211, and it should be
12 behind Tab 6 -- no, that's not right.

13 197.

14 ACTING CHAIR JAVITS: But it does say Tab 6.

15 MS. PARKER: All right, it's behind Tab 4.

16 I want to just give a little context for this
17 item. And we've set it up for discussion and possible
18 action. But I wanted to essentially give you some
19 perspective on this issue.

20 As we've said earlier in our discussion, we
21 have suspended a number of our programs. And one of the
22 programs that we suspended also, on the 23rd of
23 September, was our forward-commitment program to Self
24 Help Builders. And I think we reported it at our last
25 meeting that we found that the suspension that we had of

1 the HomeChoice Program caught some people that had been
2 involved in a contract for sale of a property, but the
3 bank that they were dealing with, and in this case Guild
4 Mortgage, had not put in a reservation for them. And so
5 while they had been acting under the assumption of a
6 program that would be in place, Guild Mortgage had not
7 followed through. Really, there was no reason. But we
8 were concerned about those individuals being impacted.
9 And we went back and made them demonstrate for us that
10 those people were in contracts and that we offered them a
11 5.5 percent interest rate.

12 Those loans are in the process -- there's about
13 25 of them -- of being reunderwritten, to see whether or
14 not they will work. And we will make those loans
15 accordingly.

16 This is a second example of programs that we
17 have -- ongoing programs that we have with partners, that
18 the window caught some unaware. And while the Self Help
19 Builders, I think, would be the first to admit, and had
20 been working with both CalHFA and HCD, recognizing the
21 programs that they use of ours, that these things are
22 available over-the-counter every day for them, they had
23 some projects that they had started. They had actual
24 Self Help families beginning to work on them, but they
25 had not made reservations for forward commitments.

1 We did a survey, because they came to both
2 HCD and CalHFA to see if we would help them. And because
3 of -- and we've identified probably a number of projects
4 that they are in the process -- and that goes back to the
5 chart that we have -- projects that they have, that they
6 are working on, and those projects of which they actually
7 have people that are committed to the homes.

8 So for those that are not under construction,
9 we are not offering them any waivers, assistance, or
10 whatever. But for those -- and there's about
11 approximately 60 homes that are caught in this window
12 where they have started construction. And if they don't
13 have some certainty about a mortgage and what the
14 interest rates are, the Self Help Builders have really
15 been in a quandary about whether or not they should just
16 stop progress and, in that sense, leave those homes and
17 those people kind of in limbo.

18 There are some projects that the homes are
19 going to be completed as early as February, and then some
20 others that will go through the spring and summer of next
21 year. But we have done a full inventory of all of the
22 Self Help nonprofits that we worked with, to find out how
23 big a problem that this is so that we could figure out if
24 there was something that we could propose, what the
25 impact to the Agency would be.

1 We also looked at other, outside of Self Help,
2 nonprofit contractors and for-profit contractors. We
3 are only coming here and talking today about those that
4 are nonprofit because of the special circumstances with
5 that group.

6 Both HCD and CalHFA have had a number of
7 discussions with these groups of people. We've asked
8 them to try to find out -- because in the past, they have
9 been reliant on a loan from CalHFA at 3 percent. And we
10 had Bruce run the numbers; and if we were to give, as an
11 exception basis, these 60 loans a 3 percent loan, the
12 impact on the Housing Finance Agency in subsidy amount
13 would be almost \$10 million.

14 What HCD has been looking at is to the extent
15 that either that the use of their funds of HOME or BEGIN,
16 that they could be used to write down what would be the
17 first mortgage loan. And then if that loan had a higher
18 interest rate, that the individuals would be kept in
19 somewhat the same financial impact on a monthly basis as
20 they were presuming when they started their house.

21 In the give-and-take of the discussions, we
22 came back and we thought the best thing to do would be to
23 make the case that because of the unique situation of
24 these people being caught, you know, really, I believe,
25 it is analogous to the HomeChoice people, that the

1 Housing Finance Agency, rather than offering interest
2 rates of 3 to 3¼, would offer them a 5.5 percent
3 interest rate.

4 And we targeted this to what we're doing for
5 HomeChoice. We targeted this to what we're doing for the
6 CSHLP or the SMART program. This is kind of the best
7 thing we're doing.

8 The other reason for doing that is it then gave
9 a target, to some extent, for the Self Help Builders to
10 go back and look at what are the ways that they could
11 mitigate the impact to the borrower. Through HCD or, if
12 that's not available, how much they might need to deal
13 with between now and when these homes close. But by us
14 coming in and giving an assurance, which would allow them
15 to have a forward commitment just for these, gives them
16 some predictability for these homes to continue and some
17 certainty.

18 We have, as we've told you by our analysis, if
19 all of these loans continue to materialize, relative to
20 what we think our cost of funds are today, it would mean
21 that we would have to use about \$2½ million of our
22 Housing Assistance Trust Funds to make up that subsidy
23 cost.

24 We brought this for your consideration today.
25 I guess I would say -- and I could ask Tom to jump in

1 here because we've had discussions about whether we truly
2 need a resolution -- I think one could say that this is
3 certainly under the purview of my authority as the
4 executive director to do this. But I think in these
5 times, and particularly the significance of what we have
6 walked through, that we thought it was really important
7 to have the Board be aware of anything that was an
8 exception, and to bring that and present it and talk with
9 you about all of that, and give it all of the due
10 consideration, public airing, so that there is no
11 perceptions or anything else about what we are doing.

12 So we're here -- Gary has gone through, we've
13 continued to do surveys. We have a number of Self Help
14 developers that we have forward commitments that they're
15 delivering on, that was done last year. And we will be
16 monitoring as those come forward. And to the extent that
17 we know of, that there is at least one Self Help
18 developer that had purchased a forward commitment that is
19 not going to be delivering within that time frame, one
20 could say that there is probably some offsetting savings
21 to these rates that we are proposing to subsidize here.
22 So we're managing this, but it is an exception, and we
23 believe that it is consistent with what you would want us
24 to be bringing to you for your consideration.

25 ACTING CHAIR JAVITS: Thank you, and thank you

1 for bringing it to us.

2 Are there questions from members of the Board?

3 Carol?

4 MS. GALANTE: I have a couple of questions.

5 There are some existing forward commitments.

6 So some people did go out and get a forward commitment

7 from CalHFA and others did not.

8 Could you talk about -- there must be a cost,

9 I would assume, to getting a forward commitment. What's

10 the rationale for some developers that have done this and

11 some that haven't?

12 MS. PARKER: You know, I met and so did Lynn

13 Jacobs, we both met with this group about two weeks ago

14 at the Rural Housing Summit in Asilomar. And I think

15 I'll try to convey what they said to me.

16 There was a lot of embarrassment on their part

17 and recognition that they failed really doing what they

18 should have done. I guess I would say what their reason

19 was, that there's been so much certainty to this program

20 for so long, that we have not changed the rates. You

21 know, we've not -- this is not a program that changes and

22 fluctuates a lot. And so I think for all intents and

23 purposes, it's not that they weren't planning to get a

24 forward commitment, they just hadn't done it. And they

25 probably were planning to do it, but they didn't think

1 that there was any urgency to be doing it when they did
2 it. And then the window closed, like that. Because when
3 we wrote that letter, it was effective the next day.

4 And I can tell you in the circumstances of one
5 Self Help developer, they were in the process of going to
6 one of the banks to get this and the person who did them
7 was on vacation. And so they couldn't complete their
8 transaction, or they would have met the date.

9 So they have, as a group, been great about
10 saying that they recognized that they really didn't do
11 what they should have done, kind of throwing themselves
12 on -- I have to say, I understand their case more than
13 I do the HomeChoice people because they were taking
14 reservations on individual properties for individual
15 people. But, you know, kind of, it is what it is.
16 And I don't think that they didn't do it because they
17 were trying to save the money on the forward commitments.
18 I think it was more just the timing.

19 MS. GALANTE: So there is a charge for the
20 forward commitment?

21 MS. PARKER: Yes.

22 MS. GALANTE: And were all these deals that --
23 the 60, I guess -- are they actually under construction
24 already?

25 MS. PARKER: Yes, yes.

1 Those that are not -- because they gave us a
2 list of all of the ones that they are currently involved
3 in. And we went through each one of those and if it
4 wasn't under construction, it got crossed off.

5 The number originally that they had, that they
6 were dealing with, that they should have gotten forward
7 commitments on, was approximately \$25 million. And when
8 we took that number and we went through for what was
9 under construction and what wasn't, that got us down to
10 the \$14.7 million number.

11 ACTING CHAIR JAVITS: Other questions --

12 MS. PARKER: It involves pretty much all four
13 of the Self Help developers, so..

14 ACTING CHAIR JAVITS: Other questions?
15 Comments from the Board?

16 MS. PARKER: You know, I think Elliott might
17 want to talk a little bit about what HCD is doing in
18 partnership on this.

19 MR. MANDELL: And, actually, Terri, I had a
20 question for you first. The \$2.56 million, is that the
21 entire problem, or is that assuming that each HCD handles
22 a portion of the issue? Because I just have summary
23 documents, and that's why --

24 MS. PARKER: No, I'll tell you what the number
25 is. I can't tell you what the number is in totality that

1 is a problem for them, because they needed to go back and
2 do an assessment about how much they were getting --
3 almost back to each and every one of these houses of
4 subsidy through the BEGIN Program and the HOME Program.

5 MR. MANDELL: Well, so simply, the HCD piece
6 would be in addition to the \$2.5 million?

7 MS. PARKER: Yes, right, because --

8 MR. MANDELL: Okay, that's all I was really
9 asking.

10 MS. PARKER: Because this is our portion --
11 there is more problem beyond this. Because all we're
12 doing is we're taking them from 3 to 5.5. And they're
13 looking to you to see if you can help them between the
14 3 and 5.5.

15 MR. MANDELL: Okay. Well, the reason I ask
16 that is because I do have some additional information.

17 Unfortunately without being able to ask the
18 staff person what did they mean in the information that
19 they sent in the e-mail, I want to kind of try to put it
20 into context, whether or not it effectively changed any
21 of the requests that is being discussed now -- or not the
22 request, but the action that's being talked about.
23 But what I do know is that we have looked at -- HCD has
24 looked at the issue and that there is an amount that is
25 about \$1.1 million that we think can be assisted through

1 our BEGIN Program. There was no mention of CalHome
2 specifically or the federal HOME dollars so I'm not sure
3 if there's some other opportunities on that.

4 We have a NOFA, Notice of Funding Availability,
5 out right now on BEGIN that our legal staff has reviewed
6 the documentation. They think that this can be used --
7 can be amended to assist these various projects. There
8 is a limitation, however, for BEGIN, and that is, that
9 there's a \$60,000 per-unit cap. And it cannot -- and
10 that's a new per-unit limit. It can't go retroactively
11 back to 2007, so that's going to effectively limit some
12 of the ability for us to assist.

13 What I'm not clear about is whether or not --
14 what the process is also in terms of for these particular
15 projects to be assisted, if there is a full and complete
16 application loan grant committee process or sort of on
17 the natural, if they apply, that that money is made
18 available. I was trying to get that information earlier,
19 and just haven't gotten it back from staff yet.

20 It sounds like for the amount that we
21 thought -- HCD thought we were being asked to assist
22 with, based on the limitation that I had just mentioned,
23 that we could help with all but about \$12,000 of that
24 problem.

25 So I hope that, I'm telling you --

1 MS. GAY: Per unit?

2 MR. MANDELL: No, in total.

3 MS. GAY: Oh, wow.

4 MR. MANDELL: Among the four entities that I
5 understand that we've been asked to see if we could
6 provide assistance for.

7 MS. PARKER: Unfortunately, we don't have --
8 the staff, when we were in this discussion, we proposed
9 about two weeks ago moving to 5.5 so in that sense, HCD
10 could look at what was the difference to see what they
11 could do. So I don't know, but I'm presuming that that
12 1.1 that you're talking about then brings them back to
13 being within \$12,000 of taking - plus, at our 5.5 percent
14 rate -- of taking the borrowers back to solve what would
15 have been their mortgage payments if they had been able
16 to get that loan at 3 percent.

17 MR. MANDELL: Well, basically, that's the
18 question I was trying to get a better handle on by asking
19 you a better question.

20 MS. PARKER: Yes, right.

21 MS. MANDELL: So I think at this point it is
22 still important to go forward with the \$2.5 million from
23 CalHFA and for HCD to finalize what we can do to assist.
24 But we're here to help.

25 MS. PARKER: Since it is costing us

1 \$2.5 million to buy a rate from 3 to 5.5, my presumption
2 is that the 1.1 that you're offering would be to take
3 care of whatever segment is a cost on top of that.

4 MR. MANDELL: Yes. And, unfortunately, I
5 can't -- I don't have the --

6 MS. PARKER: I don't think your 1.1 could --

7 MR. MANDELL: Drive down the 5.5.

8 MS. PARKER: -- would reduce the amount that we
9 think would be needed to provide.

10 ACTING CHAIR JAVITS: Thank you.

11 Are there other questions or comments from the
12 Board members?

13 *(No response)*

14 ACTING CHAIR JAVITS: Are there any -- is there
15 any testimony from the public?

16 *(No response)*

17 ACTING CHAIR JAVITS: What is the Board's
18 pleasure in terms of acting? Do we want to affirm
19 Terri's authority to make the decision in this case, or
20 is that -- I mean, I don't know, is there such a thing as
21 an affirmation?

22 MS. PARKER: Tom?

23 MR. HUGHES: Well, what we did on this was to
24 leave it wide open to what the Board wanted. We believe
25 that this kind of action is within the executive

1 director's authority, as is. But for the reasons that
2 Terri articulated, we felt the Board should know about
3 it. So we left it open that the Board could essentially
4 take no action, could just simply not object or could
5 affirm it, or could actually pass a resolution saying it
6 is okay. It's really up to the Board.

7 ACTING CHAIR JAVITS: Does anyone -- yes?

8 MS. GAY: I don't know if it's a motion then,
9 but I'd certainly like there to be some resolution that
10 provides support to putting in the appropriate money to
11 cover the gap as is noted on record that is needed.

12 ACTING CHAIR JAVITS: I guess maybe just one
13 thought. Generally, I would think we'd want our director
14 to have the authority that they have programmatically, so
15 that we don't set precedent in terms of coming to us for
16 approval on items that normally are under her purview.

17 And at the same time, I think in this case, you
18 decided to come to us, give us the information, there's
19 an interest in affirming the decisions that -- or at
20 least the recommendation that you're making today.

21 So, I mean, is there maybe some -- just as
22 perhaps something short of a resolution to approve --
23 perhaps a resolution to affirm Terri's recommendation?

24 MS. REDWAY: Could we just have the minutes
25 reflect that the direction -- the sense of the direction

1 of the Board is to support Terri's decision?

2 ACTING CHAIR JAVITS: Well, are all the Board
3 members comfortable with that?

4 MS. PETERS: Yes.

5 ACTING CHAIR JAVITS: Are there any concerns
6 about that? Any objections to that?

7 *(No response)*

8 ACTING CHAIR JAVITS: Okay.

9 MS. PARKER: Thank you. Thank you very much.

10 I do think you all are very aware of these
11 developers. And seeing the faces of these individual
12 people, they have been very much the victims of this.
13 And you will make such a difference -- we'll all make
14 such a difference in our lives about being able to help
15 this particular group.

16 MS. GALANTE: And will this resolution -- this
17 resolution of the issue, they feel good and would be
18 satisfied with this?

19 MS. PARKER: I think it would be fair to say,
20 they are very grateful. Again, they are -- they came,
21 they recognized, to some extent, their role. They really
22 looked for us to be helpful, if we could do anything.
23 And, you know, we've gotten some great e-mails about
24 being heroes so you all are heroes.

25 ACTING CHAIR JAVITS: We really appreciate the

1 efforts of the Agency to keep putting people in homes, in
2 affordable homes, in a really tough time.

3 MS. PARKER: Yes. I mean, we have heard so
4 much -- and I think we've all seen these new slides --
5 how dynamic things are. And, you know, if you just
6 weren't awake, it's like in a blink. And so, again, we
7 thought that this was consistent with what we had heard
8 before. We believe that this is the end of what are the
9 exceptions. We've heard from everybody that we would be
10 hearing from.

11 ACTING CHAIR JAVITS: Thank you.

12 Would someone ask Peter to come back in,
13 please?

14 MR. HUGHES: And we'll just note for the record
15 that Mr. Carey was absent during the consideration of
16 this matter and is now returning to the meeting.

17 ACTING CHAIR JAVITS: Okay, excellent.

18 It looks like the next item is the *Bay Area*
19 *Housing Program*, and that's under Tab 5.

20 MR. GILBERTSON: Actually, we have to back up
21 to resolution 08- --

22 MS. PARKER: Let's do this one first, then I'll
23 do that.

24 MR. GILBERTSON: Oh, okay.

25 *(Mr. Carey returned to the meeting room.)*

1 improve that situation so that we can get the rating
2 agencies to lift this letter of possible downgrade.

3 This is just one item. We've given you what
4 we are doing on all three of them. But this one is
5 obviously very important.

6 We have been having a number of meetings,
7 really, for months, trying to give the Department of
8 Developmental Services centers, the regional centers, and
9 the developer some idea about where the financial market
10 was going on this as we essentially took in those loans,
11 completed the rehab, and started filling up the 61 homes
12 with what used to be developmental-center clients in
13 institutional settings now moving into community
14 settings.

15 And as we have -- as the market has progressed,
16 Bruce has continued to meet with those individuals and
17 given them some sense of what these costs of transactions
18 would be. We gave them numbers in the summertime. We
19 gave them numbers again early in September.

20 After the middle of September, we have
21 continued to meet with them more aggressively and point
22 out that we no longer can sit and have this be on our
23 General Obligation until the market gets to a point in
24 time where these individuals like what the interest rate
25 might be. And we've actually had to get to the point of

1 very candid conversations about what could be done.

2 And in doing that, there has been, you know,
3 the recent review by other people, the Department of
4 Developmental Services has brought in an advisor to look
5 through, to see if there's other financing mechanisms.
6 The Treasurer's office has come in and looked at this to
7 see if there are other financing mechanisms. And many of
8 these financing mechanisms were frankly looked at when we
9 started this project in 2005. So that's how long ago we
10 started doing it.

11 And at that point in time, the objective that
12 we were really trying to solve was a way that we could
13 have these new kind of facilities financed without using
14 state dollars for their development, but also in a way
15 that we could do it and continue to have the services
16 provided for them be reimbursed by federal Medicaid
17 dollars. So while we could have found ways to finance
18 these projects, the real -- one of the relationship
19 issues needed to be, is it needed to be done in a way
20 that the Department of Developmental Services could
21 continue to claim Medicaid dollars and, in that sense,
22 get 50 percent reimbursement for every dollar spent.

23 So that there was savings to the State General
24 Fund in two ways: One, closing the developmental
25 centers, and, two, to the extent that we could make them

1 these communities, have the continual influx of federal
2 financial participation.

3 And then most importantly, that all of this
4 could be done not on the State's ratings. In other
5 words, their debt-structure ratings wouldn't have to take
6 responsibility for this, which would limit for the State
7 of California the capacity, that they could use their
8 rating and their debt capacity for other state purposes.

9 So that was the plan. And we've been working
10 through -- and we've been successful in getting these
11 houses done, although it took much longer than anybody
12 had intended.

13 Now, we're at a situation where bonds can be
14 sold for these properties, but we can't get the kind of
15 rating that we had anticipated and hoped for, and had
16 been trying to do everything but set ourselves on fire to
17 make them understand it.

18 We have been able to -- at the moment, if we
19 were to sell bonds, they would be -- based on -- and
20 without our General Obligation, because if we do that,
21 then it is a direct hit to us -- it would mean
22 \$100 million of our General-Fund capacity, our G.O.
23 capacity that's not available for any other things that
24 we've talked about. And that's part of the problem, was
25 that the rating agency is not even looking at -- they're

1 looking at dollar-for-dollar, as if these properties and
2 the land that they sit on and everything else has no
3 value.

4 So we've taken this back to the developmental
5 centers -- or to DDS, the regional centers, and said,
6 "Absent anything else, we have the authority to sell
7 bonds. And if it is a situation that we need to sell
8 bonds and the interest rate is going to be increased or
9 we can't use those proceeds to handle our other problem,
10 we don't have any choice."

11 As Bruce said, we're looking at four different
12 things right now. And one of them is to see if, during
13 the special session, that there might be an opportunity
14 for getting legislation that would put the State's moral
15 obligation -- not full faith and credit, there's a
16 difference -- moral obligation on these bonds.

17 We've had Stan Dirks work and prepare the
18 language that's currently being reviewed. And that
19 process is being considered, about people -- and even
20 if it's possible to do in a special-session environment.
21 If that were possible to do, it would allow the rating
22 for these bonds to go from what would be technically --

23 MR. GILBERTSON: Yes, the double-B, or B,
24 single-A --

25 MS. PARKER: Highly speculative to what would

1 be a triple-B, which is an investment-grade rating. And
2 we think that today's interest rates for these projects
3 would be probably in the --

4 MR. GILBERTSON: Tax-exempt 8 to 10 percent
5 range, if we had the moral obligation, as opposed to
6 something in the high teens, approaching 20 or 20-plus.

7 MS. PARKER: As we mentioned, we're also having
8 a discussion with the Treasurer's office about submitting
9 an application to the PMIB, that either -- not assuming
10 that we could get moral obligation with the PMIB, step in
11 and give us some window while we put an exit strategy
12 together to take out these. There always is the exit
13 strategy to take them out at the speculative-grade
14 rating.

15 We have tried every way to impress the
16 developers that if they have opportunities -- and they
17 have had in the past and they didn't take advantage of
18 them -- terms from some of their own banks, that if
19 they're better than these, to essentially go after and
20 pursue those. And in that sense, it would take it off
21 our G.O.

22 And then the fourth one -- and that really goes
23 to the heart of the resolution today -- is for us to
24 essentially have -- so we can go back and talk to the
25 rating agencies on the 4th of December and say, our

1 strategy, absent any of these other things happening, is
2 to sell debt in January.

3 And right now, we have a resolution that has a
4 cap on the interest that we could sell those bonds at,
5 and the purpose of the resolution today is to come
6 forward and ask to raise that cap to allow us --
7 clearly, we would continue to be as mindful as we can in
8 mitigating these costs to the State of California; but
9 that we would also have the option to take them off our
10 G.O. rather than having the situation of the Agency
11 perhaps be further penalized by having to cover this,
12 that it was really not a responsibility of the California
13 Housing Finance Agency but the State of California.

14 So we are here -- the resolution that we are
15 asking for, the cap currently is --

16 MR. GILBERTSON: 15 percent.

17 MS. PARKER: -- 15 percent.

18 This is asking you to raise it to 25 percent.

19 What we know in the marketplace today,
20 speculative grade, would probably be about, blended,
21 19 percent. But we put that as, you know, just a
22 worst-case scenario.

23 MR. GILBERTSON: One other thing the resolution
24 does, just more of a technicality than anything else:

25 There's a whole series of resolutions on this. We would

1 need to extend the time frame that the Agency has to
2 issue bonds for this purpose so it extends it out by
3 another full year, into early 2010.

4 MS. PARKER: Again, we are putting that in
5 because we don't know when we're going to do it; but we
6 thought we would bring both of them -- both of them
7 together as an issue.

8 MR. MANDELL: Terri, I have a question. It's
9 just a technical one.

10 When you talk about the interest rate and you
11 talked previously about Medicaid covering costs, do the
12 Feds also cover 50 percent of the interest rate?

13 MS. PARKER: Yes. In fact, I'm glad you asked
14 me this question, Elliott, because I think it really puts
15 it into perspective.

16 The developmental centers, when they first sort
17 of did this and when they met and gave their projections
18 with Finance as far as what are the costs, they were
19 trying to assume at that point in time that the interest
20 rates, including our spread, would be somewhere around
21 7½ percent.

22 They did an analysis the other day, based on
23 the information that we've given them, that if it was as
24 great as 20 percent, that over the 15-year life of the
25 bonds, it would be a \$75 million additional expenditure.

1 Half of that would be paid by federal financial
2 participation.

3 So the costs in that sense to the General
4 Fund, if it went out the entire 15 years, would be
5 somewhere around thirty- -- excuse me, \$70 million, not
6 seventy-five -- \$70 million. So it would be about
7 \$35 million over a 15-year period.

8 Many of you may or may not know the
9 Developmental Services budget, but it's billions
10 of dollars.

11 The other thing I want to add to you, we, in
12 our meetings with the Health and Welfare Agency, the
13 Treasurer's office, the regional centers, the developers
14 of this, told them about this meeting today, we were very
15 up-front about what we were doing. The director of the
16 Department of Developmental Services last weekend --
17 again in a meeting we had yesterday -- said that this
18 needs to move forward off our General Obligation.

19 We certainly said if you want to come and make
20 a presentation to the Board or express any concerns or
21 whatever, you know, here is when it's at. And, you know,
22 I'm pleased to say it, I don't think that there is
23 anybody in the audience.

24 So we have made them fully aware, the
25 Department of Finance; and we'll continue to see if there

1 are ways to mitigate this. But we need to have an exit
2 strategy to take to the rating agencies on the 4th of
3 December.

4 MS. JAVITS: Can I just ask?

5 CHAIR CAREY: I didn't.

6 MS. JAVITS: Thank you for the options and the
7 presentation.

8 Just one question: Is it possible, or do we --
9 I guess what's the potential that people will actually be
10 displaced from their homes as a result of this?

11 MS. PARKER: Oh, there is no impact on that at
12 all. You know, there's -- these facilities have to
13 function. They will function. And, you know, there is
14 this probably -- outside of education, there is the
15 next-strongest entitlement for people who are
16 developmentally disabled for the State of California to
17 pay. This is what we have been trying to make this case
18 under the Lanterman Act to the rating agencies, to
19 Moody's in particular, and they just -- they just won't
20 get it.

21 You know, this is -- from my old days, I used
22 to have this budget when I was a little budget finance
23 analyst. And, you know, you try to do your best guess of
24 guessing what the costs will be. But the State is
25 constitutionally required to make these payments. And

1 so one way or the other, these people are guaranteed
2 those services and then they have to be paid for.

3 MS. JAVITS: Thank you.

4 MR. HUGHES: One thing that might explain in
5 a little more detail -- it goes really to both
6 Mr. Mandell's question and your question, Ms. Javits --
7 is that the way it works, technically, is that the
8 Medicaid waiver pays for services, and this housing is a
9 component of that. And it doesn't pay interest, but the
10 way we structured the transaction, the rent for those
11 properties scales automatically to our debt service.
12 So as the debt service goes up, so does the rent go up,
13 and then the Medicaid comes in to reimburse a portion of
14 that rent. So the transaction works exactly the same but
15 for the fact that the State and, to a certain extent, the
16 federal government is now responsible for a higher rent
17 cost.

18 MS. PARKER: Tom, thank you. That is correct.

19 MR. MANDELL: And, Terri, without getting into
20 the specifics -- because I don't know that anyone in the
21 room has those -- what I'm gathering or assuming is that
22 the savings to the DDS budget from not having to operate
23 Agnews is substantially greater than a \$75 million cost
24 over the life of these bonds.

25 MS. PARKER: I don't want to make a -- it's

1 \$70 million.

2 MR. MANDELL: \$70 million? I'm sorry, okay.

3 MS. PARKER: I think that that's very fair to
4 say, because --

5 MR. MANDELL: So maybe it won't be as good a
6 deal for them if they have to have a higher interest
7 rate, but it's still a much better deal for the State of
8 California to move this and continue this forward.

9 MS. PARKER: And also because, frankly, the
10 State of California is under court order for the
11 depopulation of the State developmental centers.
12 And so there would be penalties in addition to being
13 assessed to the State that by having these facilities,
14 the State is not incurring those on top of the benefit of
15 being able to have this shared contributions by the feds
16 through the Medicaid-waiver possibility.

17 So, you know, it sounds like a lot of money.
18 But when you look at it on an annual year appropriation,
19 depending on what interest rates we can get, it might
20 mean another \$2 million General Fund. And as I said, you
21 know, a budget item that's -- we're obviously very
22 concerned about General Fund these days. But I do think
23 it's the balance of that perspective, relative to what it
24 means to CalHFA. And, you know, what I've told these
25 developers, that they're looking for, "Where is CalHFA

1 willing to share the pain?" I've told them that we've
2 got loans that we're selling, that we've got -- you know,
3 some of our best multifamily properties that we're
4 selling that have provided the Housing Assistance Trust
5 Funds that allow us to do these things, that we're giving
6 up. I think our share of pain is pretty apparent to you
7 all.

8 MS. GALANTE: Are you ready for a motion?

9 CHAIR CAREY: Sure.

10 MS. GALANTE: I move approval.

11 MS. JAVITS: Second.

12 CHAIR CAREY: It's been moved and seconded.

13 Is there further discussion?

14 *(No response)*

15 CHAIR CAREY: Is there anyone in the public
16 that would like to comment on this action?

17 *(No response)*

18 CHAIR CAREY: Seeing none, we will call the
19 roll.

20 MS. OJIMA: Thank you.

21 Ms. Peters?

22 MS. PETERS: Aye.

23 MS. OJIMA: Ms. Galante?

24 MS. GALANTE: Aye.

25 MS. OJIMA: Ms. Gay?

1 MS. GAY: Aye.

2 MS. OJIMA: Mr. Mandell?

3 MR. MANDELL: Aye.

4 MS. OJIMA: Ms. Javits?

5 MS. JAVITS: Aye.

6 MS. OJIMA: Ms. Redway?

7 MS. REDWAY: Aye.

8 MS. OJIMA: Mr. Carey?

9 CHAIR CAREY: Aye.

10 MS. OJIMA: Resolution 08-44 has been approved.

11 CHAIR CAREY: Thank you.

12 --o0o--

13 **Item 5. Discussion, recommendation, and possible**
14 **action regarding authority to purchase bonds**
15 **using Agency funds**

16 CHAIR CAREY: Now, we will go back to Item 5 on
17 the agenda, which is Tab 3 in the books.

18 MR. GILBERTSON: Great. Thank you.

19 One more resolution, it's resolution 08-42,
20 that would allow the agency to purchase its own bonds.
21 I'll just walk through this quickly.

22 At the last board meeting in October, the Board
23 adopted resolution 08-36, allowing the Agency to borrow
24 money to purchase our own bonds. That was part of our
25 resolution where we asked for an increase in the

1 short-term credit facilities that this Agency could have.

2 This one simply -- you know, as we thought
3 about that one more, we thought, we have \$400 million to
4 \$500 million of our own cash that we could use as part of
5 this debt-restructuring that we talked about much earlier
6 this morning, that we might want to make sure that we
7 have board approval for that purpose as well. So that's
8 really what it does.

9 Just to go back and summarize quickly, the
10 authorized uses would be, as a part of our
11 debt-restructuring and bond-redemption strategies, it
12 may become apparent to us that the best alternative is
13 to buy bonds, be them bank bonds or auction-rate
14 securities or otherwise bonds that aren't performing
15 well, directly hold them as an investment of the Agency
16 for some short period of time until we complete the
17 overall restructuring plan. Basically, that's what
18 Resolution 08-42 authorizes us to do.

19 There is a technical section, I think, in the
20 actual write-up. There's a reference to the Health and
21 Safety Code section 51003, where the Board does have
22 power to authorize certain investments of the Agency's
23 idle cash.

24 And then lastly, there's a requirement that if
25 we were to do something like this and to purchase bonds,

1 that we report back to the Board at a subsequent meeting.

2 With that, I'd be willing to answer any
3 questions, if there are any.

4 MS. GALANTE: I have a question that really
5 relates to the conversation we were having before the
6 break, and it was getting time to take a break and so
7 I didn't ask it, and so it really only tangentially
8 relates to the motion, which is, there has been a lot of
9 press about restructuring existing -- this may be more
10 for Chuck than for you, Bruce -- but restructuring
11 existing -- modifying existing loans for home buyers.
12 You know, there was just a big announcement about that.

13 I haven't heard any conversation about CalHFA
14 doing that, whether that would be financially ultimately
15 better or worse than the path that we're on, and whether
16 it's legally possible under these various instruments.

17 So I just thought it was important to
18 understand --

19 MS. PARKER: Let me answer it because I think
20 what I have told the group is that we put together a
21 working group with our sister state HFAs across the
22 country, to see whether we could take advantage of the
23 creation of a loan-refi -- not loan-modification --
24 program to use part of the \$11 billion, or \$1.1 billion
25 given to California in additional bond cap, with the

1 authority that would allow the housing finance agencies
2 for the first time ever to use those bond finances to do
3 loan refinancing. We have been prohibited from anything
4 but a first-time home buyer in the past. Though, the
5 qualifications for using that require that the bond cap
6 be used for bonds that were subprime or, you know, Alt-A,
7 technically, they had a variable-rate loan on them. So
8 that's the first thing that we need to know.

9 And so we've been working to see if we can work
10 with some of the banks, to see if the housing finance
11 agencies across the country could play a role in helping
12 them with their -- they will do loan modifications based
13 on some of the things that Citi, Bank of America, and a
14 number of them have come out with. And we're looking
15 into that. But we're making a pitch to them, you know,
16 if there are loans at the end of the day that fit in a
17 bucket of the various things that they're looking at,
18 whether they be loan modifications through changing
19 interest rates or terms or getting as far down as
20 principal reduction, if there's another bucket that's
21 left, before they would go to foreclosure, to see if the
22 housing finance agencies could play a role in preserving
23 those people in their homes.

24 Now, let me switch to what I believe was your
25 question about CalHFA. To the extent that there is a

1 requirement that we cannot use those proceeds to do a
2 refinance of our loan, then it would be a matter of us
3 doing loan modifications. And we have had -- we're
4 starting to have some internal discussions. That's part
5 of the reason for the additional staff, is to look at if
6 there are ways for us to do things on the front end with
7 our borrowers to keep them in their homes.

8 What we have looked at so far are -- and we
9 have -- it's been the history of the Agency -- is that we
10 do do loan modifications, but within a certain time frame
11 for ability for people to repay the loan. There's not
12 been cases where the Agency has done principal reduction.

13 So if we continue down that path of looking to
14 see if changes in terms of or changes in interest rates,
15 how that impacts our return on our bond payments to our
16 investors, but also how that goes fundamentally to our
17 contract with our investors that's in our indentures,
18 and particularly from the standpoint of getting into a
19 situation where there would be principal forgiveness.

20 One of the differences that we have, from my
21 standpoint, that we have that is different from the
22 banks, the banks have the ability to go and look at every
23 loan on an individual basis and make a decision on those
24 loans on an individual basis. Whatever we do has to be
25 for everyone. So if we start doing that, then the line

1 forms, and everybody technically has to be sort of
2 treated equally, whatever "equally" means. You know, do
3 you then state some criteria for what is "equally" or
4 "not equally"?

5 So I have said to you in the past that -- and
6 I've been very public about it -- we're not doing those
7 kinds of loan modifications. We are going to try to see
8 if we can, first off, do the kinds of things that our
9 sister state HFAs are doing, being more proactive and
10 working with our borrowers, getting out there --
11 Massachusetts is talking about -- they start doing
12 contacts with their borrowers at 15 days.

13 But, on the other hand, we need to look at what
14 is the cost to us of foreclosures and, you know, is there
15 some amount that we can look at that might be tolerable
16 to keep people in their houses?

17 But I just -- I say to you that that -- you
18 know, you guys, this will be your considerations well
19 after I'm gone, but because we cannot do things on an
20 individual basis like the banks can, we also didn't do
21 subprime loans. They were fully underwritten. So if
22 there are problems with the performance on these loans,
23 it really comes back to more of the situation where
24 there's been a catastrophic occurrence to people than
25 it has been that they had their interest rate adjusted

1 or that they had a situation where they -- you know, they
2 didn't have the full documentation and really didn't have
3 the finances to make the mortgage.

4 So I would suggest that when you have these
5 further talks about this, that those things need to be
6 taken into consideration, because this is very different
7 than loans that were done by Countrywide and many other
8 banks.

9 MS. GALANTE: That's helpful. Thank you.

10 CHAIR CAREY: Other questions?

11 MS. REDWAY: I don't have a question, but I've
12 got kind of a -- I guess a question -- a statement.

13 The Treasurer's office is supportive. It's a
14 good idea. It definitely makes sense maybe to buy back
15 the bonds. I think we would like, just as a Board
16 member, to see a little bit -- or have a better
17 understanding of what you will ultimately decide in
18 terms of your cash analysis. That percentage, or what
19 you want to hold in reserve before there's a lot of this
20 done, just because that is a pretty critical piece of
21 this. We'll be generating cash and we will be spending
22 it, but how much should we hold back.

23 MS. PARKER: Bruce and -- Tim, I don't see him.
24 Maybe he went back to work.

25 MR. GILBERTSON: He might have gone back to the

1 office.

2 MS. PARKER: I think what we have given you, at
3 least in our own minds, depending on how much capacity
4 that we had -- you know, what we're mostly worried about
5 is those insured bonds.

6 MR. GILBERTSON: Yes. And I would give you
7 some reassurance that we're going to be quite
8 conservative, I think, in going at this.

9 The one thing that we do have in the mix right
10 now is about a \$17 million potential purchase of VRDOs
11 that are backed by DEPPFA. We started some discussions
12 with that, and so that would be the initial, perhaps,
13 foray into this.

14 I think that the broader implications of how
15 much liquidity we should hold back for different purposes
16 will become a conversation, I think, at future board
17 meetings, especially the January and the March meetings,
18 as we start formulating our business plan and as this
19 whole market event kind of plays itself out.

20 MS. PARKER: But I think, you know,
21 particularly in these kinds of meetings, as we move
22 through this, we will do these kinds of documentations.

23 Part of the biggest added complexity is that as
24 some of these cash -- the capital is freed up, that
25 depending on where they came from, we are limited to what

1 we can cash out. It's not -- you know, it's not green --
2 totally green money. So to some extent, if it came from
3 single-family, we have to do single-family. If it's
4 multifamily, we have to do multifamily.

5 CHAIR CAREY: Other comments? Questions?

6 *(No response)*

7 CHAIR CAREY: Do we have a motion?

8 MS. JAVITS: I'll move.

9 MS. PETERS: I'll second.

10 CHAIR CAREY: Moved and seconded.

11 Resolution 08-42, any further discussion?

12 *(No response)*

13 CHAIR CAREY: Does anyone from the public wish
14 to comment?

15 *(No response)*

16 CHAIR CAREY: Seeing none, we'll call the roll.

17 MS. OJIMA: Ms. Peters?

18 MS. PETERS: Aye.

19 MS. OJIMA: Ms. Galante?

20 MS. GALANTE: Aye.

21 MS. OJIMA: Ms. Gay?

22 MS. GAY: Aye.

23 MS. OJIMA: Mr. Mandell?

24 MR. MANDELL: Aye.

25 MS. OJIMA: Ms. Javits?

1 MS. JAVITS: Aye.

2 MS. OJIMA: Ms. Redway?

3 MS. REDWAY: Aye.

4 MS. OJIMA: Mr. Carey?

5 CHAIR CAREY:: Aye.

6 MS. OJIMA: Resolution 08-42 has been approved.

7 **Item 8. Report of the Chair of the Audit Committee**

8 CHAIR CAREY: Okay, the next item on the agenda
9 is the *Report of the Chair of the Audit Committee*.

10 I've taken the chair's prerogative to ask if
11 Ms. Galante would be nice enough to make that report for
12 us.

13 MS. GALANTE: It was so long ago, I'm not sure
14 I remember it.

15 We had an Audit Committee meeting this morning
16 where the audit for fiscal year ending June 2008 was
17 discussed with the auditors, as well as our Finance
18 staff. And I would say a couple of comments.

19 The first, is that the auditors were very
20 complimentary of the staff, and let us know that in terms
21 of the audit itself and the financial statements, there
22 were no deficiencies, no audit adjustments. So they were
23 very complimentary to the CalHFA staff in terms of
24 getting the audit done and the presentation of the
25 financial statements. So we should all feel very good

1 about that, given the complexity of these financial
2 statements.

3 A couple of comments. We got kind of the
4 lowlights and highlights from what the actual financial
5 statements mean, obviously by going over them on an
6 audited basis. And I think the lowlight was that the
7 operating income for the year ending June 2008 was
8 \$10 million, whereas it had been \$85 million for 2007.

9 And that was based on a couple things. There
10 was some extraordinary income in 2007, including the sale
11 of some REO property. So there was an unusually high
12 number in 2007. And there was also an unusually low
13 number in 2008, relative to some esoteric tax situation,
14 the federal government level that impacted these
15 financial statements.

16 So I would say the Audit Committee did ask for
17 kind of what the historical number has been. And I
18 believe that we're going to get a revised chart which
19 shows a couple extra years, so we have some sense of what
20 would normally be expected, because that was a big swing.

21 The other question -- and we actually spent so
22 much time on all these bonds and the loan portfolio --
23 there was a question about the financial statements. You
24 know, the largest chunk of our assets are in the program
25 loans, and trying to understand the loan-loss reserves

1 against those assets, and how that's developed and, you
2 know, what kind of auditing requirements we have.

3 There's obviously a fair amount of judgment
4 that goes into creating that loan-loss reserve number.
5 So we did get some answers to how that was valued.

6 So I would say the last comment that the Audit
7 Committee had was given the volatility of all that we've
8 been discussing in the full board meeting, these
9 statements are, as of June 2008, which is a lifetime ago
10 given where we are today. And we thought it would be
11 important to actually get interim statements. I guess
12 they're done on a quarterly basis. So the September
13 statements are due fairly soon. And Dennis has said he
14 will get those. I don't think we've got a date, but I
15 think it is important for us to get those as quickly as
16 possible, as well as I think the December statements are
17 going to be incredibly telling. And so if we could get
18 a schedule for when the December statements are done.

19 But all in all, in terms of the audit, a good
20 job to both the auditors and staff.

21 That would be my report.

22 CHAIR CAREY: Thank you.

23 Questions or comments from -- do you have
24 anything to add, Elliott?

25 MR. MANDELL: No, I think that Ms. Galante did

1 a very fine job in encapsulating in the report the
2 actions taken this morning.

3 CHAIR CAREY: Great.

4 Okay, we will move on --

5 MS. PARKER: Mr. Chairman, can I just ask one
6 thing?

7 I'm not sure if it's in everybody's book.
8 Would you turn to page 211, which should be after -- at
9 least in my book, it's Tab 6.

10 And, Tom, could you remind me why this is in
11 there?

12 MR. HUGHES: At the last Board meeting, when
13 the Board considered the revised final commitment, there
14 was a requirement that the staff come back for the next
15 two meetings to report our progress or the status. And
16 this is the first such report.

17 MS. PARKER: And we continue to work on that
18 project. It's obviously difficult. At this point in
19 time, there's issues with the tax-credit investor,
20 there's issues on our ability to sell bonds. We had a
21 conference call last Friday; we're having another one
22 this week, on Friday. So this continues to be a
23 difficult project to try to deal with. It is in our
24 portfolio, though, so it's not like we think that somehow
25 this is going to become market and everybody kicked out.

1 But we will keep you apprised of that.

2 MS. JAVITS: Great. Thank you.

3 --oOo--

4 **Item 9. Reports**

5 CHAIR CAREY: *Reports.* We've covered most of
6 the information.

7 Is there anything to be added from the reports?

8 MS. PARKER: No.

9 CHAIR CAREY: Great.

10 MS. PARKER: I think we've reported everything.

11 MS. GALANTE: We couldn't possibly absorb any
12 more.

13 CHAIR CAREY: Yes, really.

14 --oOo--

15 **Item 10. Discussion of Other Board Matters**

16 CHAIR CAREY: *Other Board Matters?*

17 *(Ms. Peters left the hearing room for the day.)*

18 MS. PARKER: Mr. Chair, page 2 of the agenda
19 talks about the future meetings. The next one it shows
20 is a date of January 22nd in Millbrae. I believe we've
21 sent out notice that JoJo has contacted all of your
22 offices and has proposed a meeting date of December 12th,
23 at 1:00 p.m. in the afternoon. Based on the survey of
24 all of you, that was the best chance we had to get a
25 quorum to come to the meeting.

1 There are at least one, if not two items that
2 we know that we would like to have your -- we need your
3 approval on. One of them is an I.T. project that we have
4 been working on and reporting through, it's been in our
5 budget, you know, for many years.

6 But we also thought that given that these
7 meetings have been very beneficial, and right after that
8 period of time, we will have gone and talked to the
9 rating agencies, we will have completed another set of
10 meetings in Washington, we will know where we will be on
11 the potential sale of loans, that we thought it would be
12 a good time to come back -- it's my last day -- and give
13 you one more report.

14 CHAIR CAREY: Carla?

15 MS. JAVITS: There was an article in the
16 Los Angeles Times last week that I thought was, as a
17 Board member, inflammatory and highly inaccurate in terms
18 of actions that this Board has taken. And I would like
19 to respond as a Board member in some way to that. I
20 would welcome anyone else on the Board, at this time or
21 any other time after this meeting, who would like to
22 also respond. But as a member of this Board, I would
23 like to respond. And I'm not certain yet if that will
24 take the form of a letter to the editor or an attempt to
25 write an op-ed piece. But I think that we really - as

1 a Board member, I feel a responsibility to correct the
2 record.

3 The statements made kind of harken back to a
4 lot of conversation we had here, and findings from an
5 extensive audit, that there was absolutely nothing that
6 had been done that was inappropriate. And I just feel,
7 as a Board member, that I want to provide some kind of
8 response to that.

9 MS. GALANTE: I couldn't agree more, as someone
10 who was part of the audit investigation of all those
11 various claims, you know, to see that article was just
12 more than disappointing. Clearly, no one read the record
13 when they developed that article.

14 So I don't know whether -- maybe it's a
15 question for Tom, whether we just respond to that as
16 individual Board members or whether we can respond in
17 some more formal fashion.

18 Is there any prohibition against the Board --

19 MR. HUGHES: No. I think that you phrased the
20 question correctly, that the Board members could decide
21 as individuals to respond or the Board as a group or as
22 an entity could so decide if they chose. It's up to each
23 member and to the Board.

24 MS. JAVITS: So I guess I'm going to make an
25 attempt to respond, myself, within the next week. And

1 if anyone would like to participate in that response,
2 I would welcome that; and if not, I will certainly
3 indicate that I am a member of this Board in my response.

4 CHAIR CAREY: I'd certainly like to
5 participate.

6 As someone who spoke to the reporter who wrote
7 that story, I was very frustrated. He misrepresented the
8 current situation, he misrepresented the Board's actions,
9 he misrepresented the goals of the Board and was clearly,
10 in my conversations, looking for something. And I just
11 think it's irresponsible, and to suggest that it's
12 journalism is an overstatement.

13 I wanted to mention one more thing. The Board
14 Search Committee and then the Board met yesterday to
15 conclude the search process in advisory process to the
16 Governor's office. And just because I need to say this
17 to myself, and I'd like to say it for the Board -- both
18 the Search Committee process and then the Board meeting
19 yesterday was, of course, a closed-session meeting as
20 provided under the law, which means that everything in
21 that meeting was confidential, and not just as a
22 responsibility as a board, but also our responsibility
23 in our commitment to the Governor's office regarding
24 confidentiality. So I'm just reminding myself and all of
25 us that that was the result yesterday.

1 **Item 11. Public Testimony**

2 CHAIR CAREY: With that, we would open the
3 meeting to *Public Testimony*, if there's anyone in the
4 public who wishes to bring a matter to the Board's
5 attention?

6 *(No response)*

7 CHAIR CAREY: Seeing none, we will adjourn.

8 *(The meeting concluded at 12:50 p.m.)*

9 --oOo--

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REPORTER'S CERTIFICATE

I hereby certify:

That the foregoing proceedings were duly reported by me at the time and place herein specified;

That the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting, through computer-aided transcription.

IN WITNESS WHEREOF, I have hereunto set my hand on the 18th day of November 2008.

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

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MEMORANDUM

To: Board of Directors

Date: 11-26-08

From: Tom Hughes, General Counsel
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Delegation of Operating Authority to Deputy Director

As you know, the term of Executive Director Terri Parker expired on October 14, 2008. By law, she is permitted to serve for additional period of 60 days, or until the earlier appointment of a new Executive Director by the Governor. The 60 days will expire at the end of the day on December 13, 2008. At that time, if no replacement has been appointed by the Governor, the office will become vacant.

If the position becomes vacant, it is critically important that an officer of the Agency have the power and authority to continue regular operations until a replacement is appointed. The Board does not have the authority to appoint an interim Executive Director. Only the Governor can make an appointment. The Board can, however, delegate operating authority to a CalHFA officer for the interim period. That officer will not be the Executive Director, but rather an officer who may exercise all of the powers that the Board may delegate.

The Board has certain statutory powers, including a general power of administration and oversight over the operations and activities of the Agency. Those powers may be delegated in a situation like that presented here. The effect of the delegation will be to permit the Deputy Director to exercise many of the powers and authorities which would normally be exercised by an Executive Director. It should be noted that the Executive Director position is imbued with certain powers and responsibilities which probably may not be delegated by the Board. One such example is that the Executive Director acts as an ex-officio member of CDLAC and TCAC. Those seats will most likely be considered vacant until a replacement is appointed. However, we believe that the existing resolution will serve to effectively imbue the Deputy Director with sufficient authority to administer the day to day activities of the Agency and perform all normal operations on an interim basis.

As a historical note, the Board has taken similar actions at least twice in the past. In 1992, between the terms of Executive Directors Karney Hodge and John Seymour, and again in 1995 between the terms of John Seymour and Maureen Higgins, the Board enacted similar resolutions.

The resolution will expire without further action upon the appointment of a replacement by the Governor.

RESOLUTION 08-45

RESOLUTION DELEGATING DAY TO DAY OPERATING AUTHORITY TO THE
DEPUTY DIRECTOR

WHEREAS, Executive Director Theresa A. Parker is retiring at the end of her term of office; and

WHEREAS, the anticipated last day of her term will be December 13, 2008; and

WHEREAS, the position of Executive Director is appointed by the Governor of the State of California;

WHEREAS, the Board of Directors has statutory powers of administration and oversight over the Agency pursuant to Part 3 of Division 31 of the California Health & Safety Code; and

WHEREAS, it is essential that the Agency continue to operate and that the regular authority, duties and responsibilities of the Executive Director to be performed by an officer of the Agency during any period in which the position of Executive Director is vacant; and

WHEREAS, in the event that appointment of an Executive Director has not been made by the Governor as of the date the position of Executive Director becomes vacant, the Board needs to insure that an officer of the Agency has proper day-to-day operating authority until such an appointment has been made: and

WHEREAS, the Board wishes to delegate such authority to Deputy Director L. Steven Spears for such interim period;

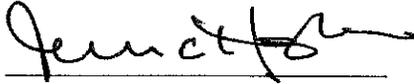
NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. Commencing immediately upon any vacancy in the office of Executive Director of the California Housing Finance Agency, the Board of Directors hereby delegates to Deputy Director L. Steven Spears, all necessary and proper powers and authorities to perform the administration and direction of the day to day operations and activities of the Agency. The Deputy Director shall perform all of the duties and responsibilities normally accorded to an Executive Director of the Agency, subject to the supervision of the Board. Any prior or contemporaneous authorizations or delegations of authority made by the Board of Directors to the Executive Director may

be exercised by the Deputy Director during the term of this resolution.

2. This delegation shall expire automatically upon an Executive Director appointed by the Governor taking office.

I hereby certify that this is a true and correct copy of Resolution 08-45 adopted at a duly constituted meeting of the Board of Directors of the Agency held on December 12, 2008, at Sacramento, California.

ATTEST: 
Secretary

State of California

MEMORANDUM

To: Board of Directors

Date: 11-26-08

From: Tom Hughes, General Counsel
CALIFORNIA HOUSING FINANCE AGENCY

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If the position becomes vacant, it is critically important that an officer of the Agency have the power and authority to continue regular operations until a replacement is appointed. The Board does not have the authority to appoint an interim Executive Director. Only the Governor can make an appointment. The Board can, however, delegate operating authority to a CalHFA officer for the interim period. That officer will not be the Executive Director, but rather an officer who may exercise all of the powers that the Board may delegate.

The Board has certain statutory powers, including a general power of administration and oversight over the operations and activities of the Agency. Those powers may be delegated in a situation like that presented here. The effect of the delegation will be to permit the Deputy Director to exercise many of the powers and authorities which would normally be exercised by an Executive Director. It should be noted that the Executive Director position is imbued with certain powers and responsibilities which probably may not be delegated by the Board. One such example is that the Executive Director acts as an ex-officio member of CDLAC and TCAC. Those seats will most likely be considered vacant until a replacement is appointed. However, we believe that the existing resolution will serve to effectively imbue the Deputy Director with sufficient authority to administer the day to day activities of the Agency and perform all normal operations on an interim basis.

As a historical note, the Board has taken similar actions at least twice in the past. In 1992, between the terms of Executive Directors Karney Hodge and John Seymour, and again in 1995 between the terms of John Seymour and Maureen Higgins, the Board enacted similar resolutions.

The resolution will expire without further action upon the appointment of a replacement by the Governor.

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1 RESOLUTION 08-45

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RESOLUTION DELEGATING DAY TO DAY OPERATING AUTHORITY TO THE
5 DEPUTY DIRECTOR

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9 WHEREAS, Executive Director Theresa A. Parker is retiring at the end of her
10 term of office; and

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12 WHEREAS, the anticipated last day of her term will be December 13, 2008;
13 and

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15 WHEREAS, the position of Executive Director is appointed by the Governor
16 of the State of California;

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18 WHEREAS, the Board of Directors has statutory powers of administration
19 and oversight over the Agency pursuant to Part 3 of Division 31 of the California
20 Health & Safety Code; and

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22 WHEREAS, it is essential that the Agency continue to operate and that the
23 regular authority, duties and responsibilities of the Executive Director to be
24 performed by an officer of the Agency during any period in which the position of
25 Executive Director is vacant; and

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27 WHEREAS, in the event that appointment of an Executive Director has not
28 been made by the Governor as of the date the position of Executive Director
29 becomes vacant, the Board needs to insure that an officer of the Agency has proper
30 day-to-day operating authority until such an appointment has been made; and

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32 WHEREAS, the Board wishes to delegate such authority to Deputy Director
33 L. Steven Spears for such interim period;

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

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38 1. Commencing immediately upon any vacancy in the office of Executive
39 Director of the California Housing Finance Agency, the Board of Directors hereby
40 delegates to Deputy Director L. Steven Spears, all necessary and proper powers and
41 authorities to perform the administration and direction of the day to day operations

MEMORANDUM

To: Board of Directors

Date: December 12, 2008

From: Steve Spears, Chief Deputy Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: AUTHORIZATION TO NEGOTIATE AND ENTER INTO A CONTRACT FOR FISCAL SERVICES SYSTEM RE-PLATFORMING SERVICES PER RESOLUTION 08-46

The Senior Management of the California Housing Finance Agency ("CalHFA") has determined the need for stabilizing and improving Fiscal Services' technical infrastructure. This technology is central to the Agency's processes of Homeownership, Multifamily, Mortgage Insurance and Operating accounting, payment processing and financial statements. The current technology is not meeting the current and changing business needs of critical CalHFA programs which depend on Fiscal Services activities and data to conduct their operations.

Senior Management has concluded that this stabilization and improvement can only be realized through strategic replacement of the current Fiscal Services technical infrastructure, resulting in a significantly reduced risk of catastrophic system failure, improved flexibility and enhanced access to timely financial information appropriate to a multi-billion dollar financial institution.

Fiscal Services is primarily supported by a set of custom-developed applications as well as numerous supporting spreadsheets. Most of this technology was developed more than ten years ago, prior to the explosion of new programming capabilities and the rapid evolution of web-based technology of the last decade. *The current Fiscal Services system is now fragile, at capacity, at risk for failure, and not supportive of the information analysis needs of management.*

As a result, CalHFA initiated the Fiscal Services Project ("Project") with the purpose of obtaining services necessary to replace the supporting applications, associated interfaces, and technical infrastructure as well as eventually reengineering all Fiscal Services accounting processes. With the successful completion of the Project, CalHFA expects to:

- Address the critical risk of existing system failure by providing a technical platform that is stable and current
- Migrate the existing system to a new platform which is both current and consistent with CalHFA's technology standards and operations
- Provide easier access to current financial data to better support Agency financial management
- Improve business operations and efficiencies

- Provide flexibility necessary to be responsive to changes in program areas
- Diminish the reliance on paper-driven processes

Through a careful analysis of CalHFA fiscal services business processes and requirements coupled with a detailed market analysis of “commercial off-the-shelf” (COTS) software and consideration of CalHFA resource constraints, CalHFA Senior Management determined that CalHFA should procure a COTS solution, implemented through a phased approach, to meet the needs of the CalHFA Fiscal Services Division.

Phase I, which is being conducted in two steps, includes the replacement of existing technical infrastructure with a stable and current platform. The first step, which has just been completed, was the selection and implementation of a COTS financial systems suite to replace CalHFA’s current general ledger system. The second step, and the focus of this memo, is the selection of a systems integrator to reprogram and migrate the Agency’s custom Legacy applications to a new technical platform and to integrate these applications with the COTS general ledger. Phase II will include identifying and modifying existing Fiscal Services business processes to utilize other core modules of the selected COTS financial suite. Phase III will include leveraging the Agency study conducted by Gartner and implementing Project/Cost Accounting.

The Project employed a best practices procurement process described in the Strategic Initiative Briefing Book provided to the Board of Directors at the March 19, 2008 meeting. A request for proposal (“RFP”) was released to 17 prospective vendors which included .NET development vendors and application conversion vendors. The Agency received only one response which was considered not adequate due to significantly higher cost and time to complete than anticipated.

As a result, the Agency conducted a survey of vendors who did not respond and updated the RFP with a defined project budget and slightly modified warranty requirements. The Agency released the new RFP to four vendors, one of which decline to participate and three who responded with proposals. Following a rigorous evaluation process and the guidance of the CalHFA Strategic Project Governance structure, CalHFA selected Eclipse Solutions.

Eclipse Solutions offered the best and most comprehensive solution to meet the needs of CalHFA; appears capable of successfully completing the Project and providing the necessary warranty support; appears to be a financially stable company with more than 12 years in the consulting industry and a strong client list; and, offered significant value at a competitive price.

RECOMMENDATION OF RESOLUTION 08-46

Resolution 08-46 would authorize CalHFA to negotiate and enter into a contract with Eclipse Solutions for the design, development and implementation of software product for \$1.72 million spread over two fiscal years. The Board of Directors has already approved \$1.5 million for this Project as part of the Fiscal Year 08/09 budget.

1 RESOLUTION 08-46

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3 APPROVAL TO NEGOTIATE AND ENTER INTO A CONTRACT FOR FISCAL
4 SERVICES SYSTEM
5 RE-PLATFORMING SERVICES
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9 WHEREAS, the California Housing Finance Agency ("Agency") currently
10 operates a computer-based fiscal services system to support Homeownership,
11 Multifamily, Mortgage Insurance and Operating accounting and financial
12 reporting; and
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14 WHEREAS, the Agency's existing fiscal services system is obsolete, at
15 capacity and must be replaced in order for the Agency to effectively meet the
16 current and changing business needs supported by that system; and
17

18 WHEREAS, the replacement of the Fiscal Services system requires new
19 industry -compatible software, and expertise in designing and implementing
20 such software to best serve the Agency's needs; and
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22 WHEREAS, the Agency's staff alone is unable to design and implement
23 appropriate software necessary to replace the Agency's existing proprietary fiscal
24 services system while continuing to meet the demands of the Agency's day-to-
25 day operations; and
26

27 WHEREAS, Eclipse Solutions, Inc. ("Eclipse") has offered the best and
28 most comprehensive solution, appears capable of successfully completing the
29 project and providing the necessary warranty support, and staff believes that
30 Eclipse is qualified to perform services to design, develop and implement
31 software to meet the Agency's needs; and
32

33 WHEREAS, the Agency wishes to enter into a contract whereby Eclipse
34 provide .NET development services, train Agency staff in its design, assist
35 Agency in its implementation, deploy the software on the Agency's computer
36 systems and provide related warranty and maintenance services to the Agency;
37 and
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39 WHEREAS, the Agency expects that the cost of the development services
40 and implementation is approximately \$1.72 million over two fiscal years, and that
41 such cost is anticipated to exceed \$1 million in one of those fiscal years: and
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State of California

M E M O R A N D U M**To:** Board of Directors**Date:** December 12, 2008**From:** Steve Spears, Chief Deputy Director
CALIFORNIA HOUSING FINANCE AGENCY**Subject:** AUTHORIZATION TO NEGOTIATE AND ENTER INTO A CONTRACT FOR FISCAL SERVICES SYSTEM RE-PLATFORMING SERVICES PER RESOLUTION 08-46

The Senior Management of the California Housing Finance Agency ("CalHFA") has determined the need for stabilizing and improving Fiscal Services' technical infrastructure. This technology is central to the Agency's processes of Homeownership, Multifamily, Mortgage Insurance and Operating accounting, payment processing and financial statements. The current technology is not meeting the current and changing business needs of critical CalHFA programs which depend on Fiscal Services activities and data to conduct their operations.

Senior Management has concluded that this stabilization and improvement can only be realized through strategic replacement of the current Fiscal Services technical infrastructure, resulting in a significantly reduced risk of catastrophic system failure, improved flexibility and enhanced access to timely financial information appropriate to a multi-billion dollar financial institution.

Fiscal Services is primarily supported by a set of custom-developed applications as well as numerous supporting spreadsheets. Most of this technology was developed more than ten years ago, prior to the explosion of new programming capabilities and the rapid evolution of web-based technology of the last decade. *The current Fiscal Services system is now fragile, at capacity, at risk for failure, and not supportive of the information analysis needs of management.*

As a result, CalHFA initiated the Fiscal Services Project ("Project") with the purpose of obtaining services necessary to replace the supporting applications, associated interfaces, and technical infrastructure as well as eventually reengineering all Fiscal Services accounting processes. With the successful completion of the Project, CalHFA expects to:

- Address the critical risk of existing system failure by providing a technical platform that is stable and current
- Migrate the existing system to a new platform which is both current and consistent with CalHFA's technology standards and operations
- Provide easier access to current financial data to better support Agency financial management
- Improve business operations and efficiencies

- Provide flexibility necessary to be responsive to changes in program areas
- Diminish the reliance on paper-driven processes

Through a careful analysis of CalHFA fiscal services business processes and requirements coupled with a detailed market analysis of “commercial off-the-shelf” (COTS) software and consideration of CalHFA resource constraints, CalHFA Senior Management determined that CalHFA should procure a COTS solution, implemented through a phased approach, to meet the needs of the CalHFA Fiscal Services Division.

Phase I, which is being conducted in two steps, includes the replacement of existing technical infrastructure with a stable and current platform. The first step, which has just been completed, was the selection and implementation of a COTS financial systems suite to replace CalHFA’s current general ledger system. The second step, and the focus of this memo, is the selection of a systems integrator to reprogram and migrate the Agency’s custom Legacy applications to a new technical platform and to integrate these applications with the COTS general ledger. Phase II will include identifying and modifying existing Fiscal Services business processes to utilize other core modules of the selected COTS financial suite. Phase III will include leveraging the Agency study conducted by Gartner and implementing Project/Cost Accounting.

The Project employed a best practices procurement process described in the Strategic Initiative Briefing Book provided to the Board of Directors at the March 19, 2008 meeting. A request for proposal (“RFP”) was released to 17 prospective vendors which included .NET development vendors and application conversion vendors. The Agency received only one response which was considered not adequate due to significantly higher cost and time to complete than anticipated.

As a result, the Agency conducted a survey of vendors who did not respond and updated the RFP with a defined project budget and slightly modified warranty requirements. The Agency released the new RFP to four vendors, one of which decline to participate and three who responded with proposals. Following a rigorous evaluation process and the guidance of the CalHFA Strategic Project Governance structure, CalHFA selected Eclipse Solutions.

Eclipse Solutions offered the best and most comprehensive solution to meet the needs of CalHFA; appears capable of successfully completing the Project and providing the necessary warranty support; appears to be a financially stable company with more than 12 years in the consulting industry and a strong client list; and, offered significant value at a competitive price.

RECOMMENDATION OF RESOLUTION 08-46

Resolution 08-46 would authorize CalHFA to negotiate and enter into a contract with Eclipse Solutions for the design, development and implementation of software product for \$1.72 million spread over two fiscal years. The Board of Directors has already approved \$1.5 million for this Project as part of the Fiscal Year 08/09 budget.

RESOLUTION 08-46

APPROVAL TO NEGOTIATE AND ENTER INTO A CONTRACT FOR FISCAL
SERVICES SYSTEM
RE-PLATFORMING SERVICES

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9 WHEREAS, the California Housing Finance Agency ("Agency") currently
10 operates a computer-based fiscal services system to support Homeownership,
11 Multifamily, Mortgage Insurance and Operating accounting and financial
12 reporting; and

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14 WHEREAS, the Agency's existing fiscal services system is obsolete, at
15 capacity and must be replaced in order for the Agency to effectively meet the
16 current and changing business needs supported by that system; and

17
18 WHEREAS, the replacement of the Fiscal Services system requires new
19 industry -compatible software, and expertise in designing and implementing
20 such software to best serve the Agency's needs; and

21
22 WHEREAS, the Agency's staff alone is unable to design and implement
23 appropriate software necessary to replace the Agency's existing proprietary fiscal
24 services system while continuing to meet the demands of the Agency's day-to-
25 day operations; and

26
27 WHEREAS, Eclipse Solutions, Inc. ("Eclipse") has offered the best and
28 most comprehensive solution, appears capable of successfully completing the
29 project and providing the necessary warranty support, and staff believes that
30 Eclipse is qualified to perform services to design, develop and implement
31 software to meet the Agency's needs; and

32
33 WHEREAS, the Agency wishes to enter into a contract whereby Eclipse
34 provide .NET development services, train Agency staff in its design, assist
35 Agency in its implementation, deploy the software on the Agency's computer
36 systems and provide related warranty and maintenance services to the Agency;
37 and

38
39 WHEREAS, the Agency expects that the cost of the development services
40 and implementation is approximately \$1.72 million over two fiscal years, and that
41 such cost is anticipated to exceed \$1 million in one of those fiscal years; and
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1 WHEREAS, Title 25 California Code of Regulations section 13302 requires
2 Board approval of such vendor contracts in which costs are reasonably expected
3 to exceed \$1 million in any fiscal year;
4

5 NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the
6 Agency as follows:
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8 1. The Executive Director is authorized to negotiate and execute a contract
9 with Eclipse Solutions, Inc. for the design, development and implementation of
10 software product meeting the needs of the Agency, and provide additional
11 related services, on terms and conditions that the Executive Director deems
12 reasonable and appropriate.
13

14 I hereby certify that this is a true and correct copy of Resolution 08-46
15 adopted at a duly constituted meeting of the Board of Directors of the Agency
16 held on December 12, 2008, at Sacramento, California.
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18
19 ATTEST: _____
20 Secretary
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