

STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS
PUBLIC MEETING

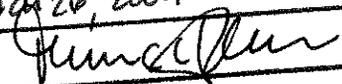
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The Westin San Francisco Airport
One Old Bayshore Highway
Milbrae, California

Thursday, January 22, 2009
9:36 a.m. to 1:39 p.m.

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Minutes approved by the Board
of Directors at its meeting held:
March 26, 2009

Attest: 

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

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A P P E A R A N C E SDirectors Present:

PETER N. CAREY, Acting Chairperson
President/CEO
Self-Help Enterprises

CAROL GALANTE
President
BRIDGE Housing Corporation

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

LYNN L. JACOBS
Director
Housing and Community Development

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

HEATHER PETERS
For Dale E. Bonner
Secretary
Business, Transportation and Housing Agency

BETTINA REDWAY
For Bill Lockyer
State Treasurer
State of California

JACK SHINE
Chairman
American Beauty Development Co.

L. STEVEN SPEARS
Acting Executive Director
California Housing Finance Agency

BROOKS TAYLOR
For Cynthia Bryant
Director
Office of Planning and Research

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CalHFA Staff Present:

GARY BRAUNSTEIN
Special Advisor to the Executive Director
Homeownership Lending

ROBERT L. DEANER, II
Director
Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing
Financing Division

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration

CHARLES K. McMANUS
Director
Mortgage Insurance

DENNIS MEIDINGER
Comptroller

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

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1 BE IT REMEMBERED that on Thursday, January 22,
2 2009, commencing at the hour of 9:36 a.m., at The Westin
3 San Francisco Airport, One Old Bayshore Highway, Old
4 Bayshore Room, Millbrae, California, before me, YVONNE
5 K. FENNER, CSR #10909, RPR, the following proceedings
6 were held:

7 --o0o--

8 ACTING CHAIRPERSON CAREY: This is the
9 January 22nd meeting of the California Housing Finance
10 Agency Board of Directors, and our first order of
11 business is the roll.

12 --o0o--

13 **Item 1. Roll Call**

14 MS. OJIMA: Ms. Peters for Mr. Bonner.

15 (No response.)

16 MS. OJIMA: Ms. Galante.

17 MS. GALANTE: Here.

18 MS. OJIMA: Ms. Gay.

19 MS. GAY: Here.

20 MS. OJIMA: Ms. Jacobs.

21 MS. JACOBS: Here.

22 MS. OJIMA: Ms. Javits.

23 MS. JAVITS: Here.

24 MS. OJIMA: Ms. Redway for Mr. Lockyer.

25 MS. REDWAY: Here.

Board of Directors Meeting - January 22, 2009

1 MS. OJIMA: Mr. Shine.
2 MR. SHINE: Here.
3 MS. OJIMA: Mr. Smith.
4 (No response.)
5 MS. OJIMA: Mr. Taylor for Mr. -- Ms. Bryant.
6 (No response.)
7 MS. OJIMA: Mr. Genest.
8 (No response.)
9 MS. OJIMA: Mr. Spears.
10 MR. SPEARS: Here.
11 MS. OJIMA: Mr. Carey.
12 ACTING CHAIRPERSON CAREY: Here.
13 MS. OJIMA: We have a quorum.
14 ACTING CHAIRPERSON CAREY: Good. Thank you,
15 Jojo.
16 --oOo--
17 **Item 2. Approval of the minutes of the September 18,**
18 **2008; November 13, 2008; and December 12, 2008 Board of**
19 **Directors meetings**
20 ACTING CHAIRPERSON CAREY: The next item of
21 business is the approval of the minutes for three
22 meetings. Unless there are any corrections, can we take
23 them as a group?
24 MR. SHINE: I'll move it.
25 MS. GAY: Second.

1 ACTING CHAIRPERSON CAREY: Moved and seconded.

2 Any further discussion?

3 All in favor -- I'm sorry, roll call.

4 MS. OJIMA: Thank you.

5 ACTING CHAIRPERSON CAREY: That would be too
6 easy.

7 MS. OJIMA: Ms. Galante.

8 MS. GALANTE: Yes.

9 MS. OJIMA: Ms. Gay.

10 MS. GAY: Yes.

11 MS. OJIMA: Ms. Jacobs.

12 MS. JACOBS: Yes.

13 MS. OJIMA: Ms. Javits.

14 MS. JAVITS: Yes.

15 MS. OJIMA: Ms. Redway.

16 MS. REDWAY: Yes.

17 MS. OJIMA: Mr. Shine.

18 MR. SHINE: Yes.

19 MS. OJIMA: Mr. Carey.

20 ACTING CHAIRPERSON CAREY: Yes.

21 MS. OJIMA: The minutes have been approved.

22 ACTING CHAIRPERSON CAREY: Thank you.

23 --oOo--

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

25 ACTING CHAIRPERSON CAREY: With that, we'll move

1 on to comments. I'm going to cede my time to our
2 executive director, Steve Spears.

3 Steve, I know you've got a fair amount to share
4 with us.

5 MR. SPEARS: A fair amount.

6 It has been an eventful month since last we met
7 together. And I mean, despite the historic week, this
8 week with the new administration in our nation's
9 capital, a lot of things have been going on with the
10 State that have now touched CalHFA, so many things going
11 on.

12 On the federal level, just to start with that
13 very quickly, our national association, the NCHSA, is --
14 has been very active in pursuing an ask list, that you
15 have been briefed on before, with the new
16 administration. It first appeared that that would show
17 up in federal legislation, and now it appears that the
18 new Obama administration will take that up themselves.

19 There are weekly calls. There's been one two
20 weeks now at noon on Thursdays. We'll probably miss the
21 one today, but I will be checking with Barbara Thompson,
22 the president of the association, after our meeting here
23 to check in the on the most recent development. At
24 present there's not a lot to report because they're
25 still in research mode trying to find out what the

1 administration is actually proposing.

2 We have heard a persistent rumor that the
3 conservator, Mr. Lockhart, from the -- I guess the new
4 nickname is "FeeFa," FHFA, the overseer for Fannie Mae
5 and Freddie Mac, has indicated that Fannie Mae and
6 Freddie Mac are going to provide somewhere in the
7 neighborhood of 5 to 6 billion dollars to HFAs to help
8 with variable-rate debt.

9 We're not sure what that's going to look like,
10 but if that does come true, that would be terrific news
11 for CalHFA. We want would want to be first in line for
12 any of that sort of assistance, and we'll keep pursuing
13 that.

14 But one thing I want to do first off, we have a
15 new member of the senior executive team, Howard Iwata.
16 Howard's in the front row there -- if you stand, thank
17 you. Howard is our new director of administration.
18 He'll be involved with facilities management, with HR,
19 business support, budgeting. We'll all follow him.

20 And he has terrific background, broad
21 background, in all these areas. He comes to us from the
22 State Controller's Office. We stole him away from there
23 where he was chief administrative officer for one of
24 their largest divisions, the audit division. And before
25 that he was with the San Francisco Bay Conservation

1 Development Commission, a 26-member board, so he has
2 experience working with boards, with budgets. He was
3 the assistant executive director for administration for
4 that -- that body, so he has terrific experience.

5 So welcome, Howard.

6 And he will be talking about two items, the
7 budget augmentation item and also an update on -- a
8 midyear update on expenditures.

9 So I'd like to do -- not necessarily quickly,
10 but set the stage for the discussion today and talk
11 about three very important developments since last we
12 met and then give you an overview of what you're going
13 to hear with regard to the business plan.

14 So getting right to it, the first important item
15 is you all know about Moody's decision to put the
16 State -- CalHFA's general obligation credit rating on
17 watch for possible downgrade. That occurred back in
18 September. There was a 90-day review period. It ended
19 roughly at the end of December. At the end of December,
20 we had not heard anything, and they issued an extension,
21 another 90 days.

22 So in a way, that's good news for us because
23 the -- that provides additional time for us to execute
24 some of our strategies and alleviate some of their
25 concerns, so we're viewing that as a positive. It gives

1 us more time to work with the analyst, and they've asked
2 for more information. Bruce might mention some of that
3 a little bit later on, but we see it as a positive.

4 One thing -- and I think, Jojo, we made the
5 letter, the Moody's letter, available --

6 MS. OJIMA: Yes, everyone has it.

7 MR. SPEARS: -- to all of you. When you have
8 time, look through that.

9 But they specifically mentioned the retirement
10 of Terri Parker as the executive director and the search
11 for a new director, that they would be following that
12 development closely. They'll be very interested in
13 whoever the new ED is, that -- you know, their emphasis
14 on solving these problems and their focus on that. So I
15 thought that was very interesting.

16 And so, again, it's -- we're viewing it as good
17 news.

18 The second thing, perhaps the most important,
19 although maintaining our credit rating is, you know, of
20 prime importance, the State's budget and cash crisis has
21 finally come to touch CalHFA in a very real way.

22 Just as background, I'm not sure if all the
23 Board members have been briefed on our cash flow
24 business model, but it's very simple. As we purchase
25 loans, we don't pre-fund those sales of bonds up-front.

1 We have a warehouse line of credit with something called
2 the Pooled Money Investment Fund. We borrow money from
3 that fund. We make those loan purchases. And then when
4 that balance is built up, we go out, sell bonds in the
5 normal circumstances, repay the loan at the PMIB.

6 Now, the Pooled Money Investment Board governs
7 that fund, and that fund made up of surplus moneys from
8 around the State, the General Fund, special funds,
9 moneys that are available under ordinary circumstances.

10 On December 17, just after we met last for this
11 Board, the Pooled Money Investment Board looked at the
12 liquidity of that fund and determined that they could no
13 longer make loan disbursements. We've been doing this
14 at CalHFA for 14 years, and the amount of the loan has
15 grown from somewhere around a hundred million dollars to
16 now the total amount of our borrowing capacity is
17 \$350 million. We have about \$118 million, I believe, on
18 balance with them, but they said with regard to all loan
19 disbursements for all state departments on December 17
20 that was cut off.

21 So I guess we have to go back and rewind the
22 tape all the way back to September of last year. When
23 Lehman Brothers went bankrupt and the bond market really
24 began to shut down and then after that completely shut
25 down, we closed off most lending. I think you remember

1 that we were only down to 30-year mortgages and some
2 downpayment assistance. We were getting one, two loans
3 a day, sometimes three or four loans a day, so it was
4 really sort of trickling in already, so we had already
5 pulled the pipeline down.

6 But when that line of credit was completely cut
7 off, we had to make a decision up or down immediately
8 whether to continue to lend, and we just didn't see how
9 we could continue to purchase loans on an ongoing basis
10 and decided to suspend lending at that time.

11 So at present, this Agency is only making loans
12 for two programs: the Community Stabilization Home Loan
13 Program, the small REO program, and our own REO program,
14 which we have named the SMART program after Jerry Smart.
15 Those are the only two lending programs, activities,
16 that we have doing right now. So it's a very
17 significant impact, and that's on an ongoing basis.

18 The big issue became immediately what to do with
19 our loan reservation pipeline, and there was no pipeline
20 protection in the PMIB's decision. I doubt if they even
21 would understand what we were talking about if we went
22 and asked for that protection.

23 But we had approximately a hundred million
24 dollars of commitments through our reservation system in
25 homeownership for promises that we had made that we

1 would buy loans if those loans worked their way through,
2 people qualified, and then brought those loans to us for
3 purchase.

4 We had a long discussion among the senior staff
5 and decided that given our reputation in the community,
6 the time of the year being the holiday season, the
7 reputation of this Board and the administration on the
8 line, that we would protect that pipeline, and we made
9 that announcement.

10 It is going to impact our nest egg of liquidity
11 because with that hundred million dollars -- I believe,
12 Bruce, you may want to speak to this -- but of that
13 hundred million dollars, we were going to use a
14 \$40-million line of credit that we had opened with Bank
15 of America, but the remainder of it will be internal
16 funds that we have available, and it will whittle down,
17 if you will, our little nest egg that we have for
18 liquidity.

19 MR. GILBERTSON: Yeah, I guess I would just add,
20 Steve, that maybe hold this thought. We have a slide in
21 one of the presentations that will walk through this.
22 We broke down by loan type and loan program and the
23 strategies that we had to honor the commitment, so I
24 think that's in the last presentation, on the financial
25 update.

1 MR. SPEARS: The only update is the PMIB
2 recently met. Ms. Treadway was there as well. Bruce
3 and I and Tom attended. And they met a week ago
4 Friday -- is that correct? -- to decide is there any
5 change to what they did in December. I believe they
6 made 500 million available for various projects. Almost
7 all of them were Caltrans infrastructure road building.

8 Although we applied for an exemption, it wasn't
9 granted, and so we still are in the -- the mode of no
10 lending at this point.

11 So I don't know if you want to --

12 MR. SHINE: Except for the REO stuff.

13 MR. SPEARS: Except for REO stuff.

14 And we specifically asked for an extension on
15 several multifamily projects where we're really joining
16 with HCD. On construction projects, we put up a lot of
17 the construction lending, but then when the projects are
18 finished and MHP money becomes available, that's part of
19 the -- those are part of the funds that take out our
20 construction bonds.

21 Unfortunately, Ms. Jacobs is in the same boat as
22 us. When they said no lending on -- on programs like
23 that, they meant all G-O bond funded programs, and
24 that's where the money comes from for MHP funds. And so
25 they don't have the cash. We don't have the cash.

1 So we've asked for an exception, along with
2 Lynn, for some of those multifamily projects. I believe
3 that's correct.

4 The next PMIB meeting is in mid-February, I
5 believe.

6 MS. REDWAY: Just to clarify, I think the
7 Department of Finance actually makes the decisions.

8 MR. SPEARS: That's correct.

9 MS. REDWAY: PMIB just is sort of acting like a
10 bank and saying, you know, we have \$650 million
11 available for you to use, and then the Department of
12 Finance and the various state agencies decide to carry
13 an equity line of credit. They're like the husband and
14 wife deciding what it is they're actually going to spend
15 the money on. So Finance is making those decisions.

16 MR. SPEARS: Are there any questions about that
17 particular item?

18 It really goes to what we're going to be telling
19 you as far as the business plan, so we'll cover that but
20 I just wanted to set the stage.

21 MS. GALANTE: Are you going to go further into
22 how much of the hundred million actually -- it sounds
23 like there was some potential that some of that would
24 fall out -- how much of that is single family, how much
25 is multifamily? Is that in your slide later, Bruce?

1 MR. GILBERTSON: Yeah. The slide that we have
2 is primarily on the homeownership program.

3 The multifamily program, we're going to talk
4 about it through these financing resolutions that are
5 first up on the agenda. As you will recall, we had a
6 number of sponsors come before this Board at the
7 September 2008 meeting. That's kind of the pipeline
8 that we have.

9 We've come up with one strategy that will help
10 some of those borrowers, and that's through a conduit
11 financing program. We'll talk about more on that later.

12 So I think in total the one thing we've
13 missed -- perhaps two things -- is that we do have the
14 MHSA program. It's ongoing because that's separately
15 funded. We received a transfer of funds for that.

16 And I think on the homeownership program side,
17 the other thing that the PMIB action caused was we
18 didn't have access directly to some of the Prop 46 and
19 1C moneys that also come to us via HCD and our
20 interagency agreement with them.

21 MS. GALANTE: Can I ask one other? This may be
22 one of those questions that's really ignorant, but did I
23 hear you say that CalHFA had some of its money in this?
24 So this is like the State's checking account, to keep it
25 simplistic; right? So it's the liquidity for the State.

1 So CalHFA keeps its liquid money in this pool; is that
2 correct?

3 MR. GILBERTSON: Correct. And I don't have it
4 in front of me, Carol, but you do have a Board report,
5 an annual investment report. It's about \$1.4 billion.

6 But I -- our money is firewalled from the
7 General Fund, and certainly the State Treasurer or
8 anybody with the State could not access our moneys.

9 MS. GALANTE: Okay. So here's my question: So
10 how can they freeze that money if it's our money?

11 MR. GILBERTSON: What we effectively did with
12 the PMIB is we asked for a loan or line of credit from
13 think of it as the State's General Fund. So we want to
14 take a temporary loan to warehouse loans until we access
15 the bond market to provide a permanent financing
16 solution for some of our loan programs.

17 MS. GALANTE: So -- I'm sorry, so CalHFA has
18 some cash.

19 MR. GILBERTSON: Um-hmm.

20 MS. GALANTE: And where is that cash?

21 MR. GILBERTSON: It's invested by the State
22 Treasurer.

23 MS. REDWAY: It's in something called SMIF.
24 It's a segregated account.

25 MR. GILBERTSON: SMIF is the State's Surplus

1 Money Investment Fund. All state agencies that are
2 authorized can invest idle cash in that fund and the
3 Treasurer then actually purchases specific securities.
4 Okay.

5 There's a broader board that governs their
6 investment strategy called the Pooled Money Investment
7 Board, and they have been -- they have served a role as
8 a lender, a bank, as Ms. Redway has suggested. And so
9 we have accessed that line of credit to allow us to
10 warehouse loans without consuming all of our other
11 liquidity.

12 Remember, a big portion of the 1.4 billion we
13 have invested is restricted to serve indenture
14 provisions. It's used for specific purposes. We
15 couldn't necessarily use it to warehouse loans.

16 It sounds like it's all in one big bucket, but
17 it is properly segregated, and our money is distinct
18 from the rest of the State.

19 MS. GALANTE: I'm just trying to understand what
20 liquidity CalHFA has that CalHFA has total discretion
21 over.

22 MS. REDWAY: I think what Carol is asking, If
23 I'm getting it, Steve, is you had referenced earlier
24 that you had a \$40-million line of credit with B of A
25 that you might draw on --

1 MR. GILBERTSON: It falls into several different
2 things. We hold -- as a loan servicer, we're holding
3 borrowers' money. We service multifamily loans. We're
4 holding reserve accounts.

5 We service first-time home buyer loans as well,
6 and we have some of those. I don't believe -- there's
7 not much of that invested in the State Treasurer's
8 system.

9 We hold moneys that have been provided to us
10 from MHSA. \$400 million, I believe, was transferred to
11 us during the last fiscal year. That is all sitting in
12 the State Treasurer's investment pool as well. So it's
13 a variety of things including certain accounts that are
14 pledged as collateral to the bond investors in our
15 various indentures.

16 MR. SHINE: Well, am I clear, all of that
17 notwithstanding, the billion-four is in addition to that
18 amount, that that amount is made up of buyers' deposits,
19 escrows, things that we're holding and so on. The
20 billion-four is CalHFA's unallocated money to be used as
21 they want to.

22 MR. GILBERTSON: No. That is not correct.

23 MS. REDWAY: No, the billion-four includes all
24 that stuff.

25 MR. SHINE: So the billion-four isn't all our

1 money.

2 MR. GILBERTSON: The interesting thing -- and
3 here's maybe the confusion -- we have about a
4 billion-four of fund equity, and we have about a
5 billion-four of cash invested in the State Treasurer's
6 investment pool. You know, the composition of the fund
7 equity is not all cash. We have a variety of loan types
8 and programs that would comprise equity.

9 MR. SHINE: No, I understand. I think I said it
10 incorrectly. When we started out, we had a
11 billion-four. We said it was spread in different
12 places. There was some cash and some investments in the
13 Treasurer's Office and so on. My question is if you
14 take that billion-four and put it into an asset column,
15 are there liabilities against that billion-four or is
16 that something we have invested in addition to the
17 billion-four?

18 MR. GILBERTSON: The billion-four is an equity
19 balance, but ironically there is cash that was put into
20 the State Treasurer's investment pool that also is a
21 billion-four. Some of that cash is restricted for
22 purposes that this Board doesn't have direct rights to
23 utilize it for any purpose. Then the smaller number
24 that we have control over is about \$300 million.

25 ACTING CHAIRPERSON CAREY: Will this surface,

1 Bruce, in your slides?

2 MR. GILBERTSON: Part of it will. And certainly
3 as we go through this I think we should make sure that
4 the Board asks any further questions they have to better
5 understand this.

6 MR. SPEARS: The -- the difficulty is that when
7 we get to the business plan, we get to the financial
8 review. The slides are geared to, you know, what we're
9 doing from this point on, and we just need to go back
10 and set the stage for that a little bit. And I
11 apologize for the confusion, but it is complicated.

12 But the bottom line is the money that we have
13 invested with the State Treasurer's Office is not
14 restricted, the money that is our nest egg, the money
15 that Carol referred to. That is liquid to us that we
16 have discretion over. The part that's been locked down
17 is the amount that we were asking to borrow. The line
18 of credit that we had worked out, that has been cut off.

19 No question, we could provide our own warehouse
20 line of credit. We could fund our pipeline internally
21 to try to keep that going. The problem is under current
22 circumstances, we have other restructuring needs for
23 those funds. We just don't have enough cash to do all
24 those things all together. So it became necessary for
25 us to shut down lending and focus on the things that

1 need to be done in Bruce's shop with debt restructuring.

2 MS. GAY: I want to say real quickly how much I
3 applaud the decision to honor your pipeline for
4 families --

5 MR. SPEARS: Thank you.

6 MS. GAY: -- in these difficult times.

7 MR. SPEARS: Thank you.

8 MR. GILBERTSON: Steve, if I can add, maybe
9 later in the agenda, even though I wasn't planning to do
10 this and I don't have a PowerPoint presentation, we
11 could walk through the investment report that is in the
12 back of the binder today, and that will help you
13 understand the totality of the investments the Agency
14 has.

15 MR. SPEARS: Any other questions? We'll move to
16 the other important item.

17 ACTING CHAIRPERSON CAREY: While we have a short
18 break, I'd like to note that Heather Peters has joined
19 us. Thank you.

20 MR. SPEARS: The third important development in
21 the last month is within a day or two after the and
22 unrelated to the PMIB decision, we also got a letter
23 from the Governor and an executive order with regard to
24 a furlough plan for state employees. And to be clear,
25 they're state employees of the departments under the

1 direction of the Governor's Office. CalHFA falls into
2 some of this, but not all.

3 There are three things the letter and the
4 executive order say: One is there will be layoffs.
5 That only applies to General Fund departments. It does
6 not apply to CalHFA.

7 The second thing is that employees would be
8 subject to a furlough program and at that time yet to be
9 determined. And that's why the memo that you received
10 in your Board binders didn't have a plan -- we'll talk
11 about that in a minute -- but that two days a month
12 employees would be given off without pay.

13 And third thing was with regard to supervisors
14 and exempts, that they would -- there would be an
15 equivalent program, undefined at that point, that would
16 result in pay reductions equivalent to two days month.

17 Recently since the Board package just went out,
18 a furlough plan was distributed by -- with a letter from
19 the Department of Personnel Administration, and it's
20 really a simple program that all offices subject to this
21 plan would be closed two days a month, the first and
22 third Fridays of the month.

23 I'm sure all of you have heard about this in the
24 news accounts and that sort of thing. It eliminates any
25 bookkeeping with regard to furlough days, the management

1 of that sort of thing, but at the same time offices
2 would be completely closed.

3 CalHFA falls under this program. There are
4 exceptions, but they are for public safety, protecting
5 lives, saving lives, caring for the sick and caring for
6 the disabled, and we don't fall under those.

7 There is another exemption category called
8 self-directed, and that means if it is necessary to
9 accomplish one of those four categories, you are allowed
10 to open your office and have folks working on those
11 days, those closure days. Employees that are required
12 to work are able to bank those furlough days over a
13 two-year period of time.

14 And there's a third category that we have gotten
15 permission, direct permission from BT and H, and that is
16 if there is an urgent matter of the Agency, we are
17 permitted to work employees on those closure days, and
18 then the employees are -- need to take the furlough days
19 within the pay period, within the next 30 days.

20 So the bottom line for us is when we're subject
21 to the furlough, there's not a blanket exemption, but
22 with regard to the urgent matters of the Agency, we have
23 permission to meet those demands. There are legal
24 challenges to this, and there are two hearings next
25 week, I understand. The CCPOA, the corrections union,

1 and folks representing I believe it's Bargaining Unit
2 One, which is most all state employees, have challenged
3 this program, and the hearings are next week, so next
4 week will be a big thing.

5 But in the meantime we are putting together --
6 I've asked all the senior managers for a list of urgent
7 matters that might come up so that we can sort of give
8 BT and H a heads-up of the kinds of things we would be
9 contacting them about. Other than that, we will at this
10 point be closed the first and third Fridays of the month
11 beginning February 6.

12 So let me stop there and ask if there are any
13 questions. Just full of good news today.

14 ACTING CHAIRPERSON CAREY: Steve, that's a --
15 basically an 18-month order regardless of what happens
16 to the budget?

17 MR. SPEARS: At the present time, this plan ends
18 June 30, 2010. It could be -- they specifically said it
19 could be ended before that time, just so we all know.

20 The -- that leaves us with, you know, I just
21 want to provide an overview then of what you're going to
22 hear about the business plan. You know, traditionally
23 the January Board meeting is when we tell you where we
24 are with the business plan and how we're going to wind
25 up the year.

1 Since we are not lending at this point, either
2 the multifamily framework or the single-family
3 framework, we are behind plan. You're going to hear
4 that we're behind plan. We will end the year behind
5 plan.

6 But you will also hear that we have shifted
7 resources; that we are working on loss mitigation and
8 REO management with an increasing REO inventory; that we
9 are working on new systems; that we are working on a
10 flow program that Gary will talk about -- or we will
11 talk about through the midyear, and that will allow us
12 to essentially purchase loans, have the loans delivered,
13 pass them through to investors at the other end of the
14 channel.

15 The loans would not belong to us after that, but
16 we would earn a fee. It would allow us to keep lending,
17 making CalHFA loans to folks who need those loans,
18 without the issuance of bonds, so it would reduce our
19 dependence on the bond market.

20 You're going to hear Bruce talk about debt
21 restructuring. We're going to be conducting some loan
22 sales; deleveraging our balance sheets, as many banks
23 are, selling assets and retiring debt and bringing down
24 both sides of the balance sheet.

25 And the whole idea, the picture that we're

1 trying to paint for you today, is that we'll be very
2 busy, that there is no bond market at this point.
3 There's nothing we can do about that. The real estate
4 market is what it is. There's nothing we can do about
5 that. The thing that we can do internally is to get to
6 work cleaning up our balance sheet, doing things
7 internally, and time those things so that when the bond
8 market does come back, that we're ready to go.

9 I can tell you that all the folks in this room,
10 all the senior managers, all the employees, cannot stand
11 being on the sidelines. Homes are as affordable as
12 they've ever been. Demand for affordable rental units
13 is as high as it's ever been, and we're on the sidelines
14 for forces that we can't control.

15 It is very frustrating to the staff, very
16 frustrating, and we want to get back in the game as soon
17 as possible. And that's why everyone is -- I've heard
18 no complaints about being reassigned from loan
19 production activities to other duties. And folks are
20 very willing to help and get going. They're working
21 very, very hard to do that.

22 So that concludes my remarks. We'll take any
23 questions, otherwise we can move on.

24 ACTING CHAIRPERSON CAREY: Any questions?

25 --oOo--

1 **Item 4. Annual Single-Family Bond Reauthorizing;**
2 **Resolution 09-01**

3 ACTING CHAIRPERSON CAREY: Okay. Next is
4 discussion, action regarding the single-family bond
5 indentures.

6 Bruce, you're up.

7 MR. GILBERTSON: Thanks, Mr. Chairman, Members
8 of the Board.

9 Each January, for those members that have been
10 on this Board for some time, we present to you a series
11 of financing resolutions that reauthorize the Agency to
12 issue debt. It establishes parameters for related
13 financial agreements and those types of things that we
14 would need as we go forward.

15 Steve's laid out a pretty dire picture as far as
16 our issuance activity in the near term, but certainly
17 this would establish and provide from the Board level
18 the authority for us to enter the bond market when it
19 becomes a viable alternative again.

20 There's actually four resolutions. Three of
21 them tie into the financing resolution. The last one is
22 a follow-up to a discussion we had at the Board at the
23 December 2008 meeting regarding loan sales.

24 The single-family bond reauthorization,
25 Resolution 09-01, simply is reauthorization to issue

1 single-family bonds for our homeownership loan program.
2 Volume limits are established within the resolution
3 equal to the amount of bond principal being retired and
4 equal to the amount of new private activity bond volume
5 cap that the Agency might be awarded by the California
6 Debt Limit Allocation Committee and then also equal to
7 no more than \$900 million of federally taxable bonds.

8 These limits are established very similar to
9 the -- or are exactly the same as the authorization
10 provided by the Board last year.

11 The resolution would also allow the use of any
12 of the previously approved bond indentures that are
13 listed within the resolution.

14 The resolution also provides for the full range
15 of financial agreements that provide and allow the
16 Agency to invest bond proceeds to hedge interest rate
17 exposure and to hire consultants and advisors to help us
18 manage our debt portfolio and derivatives.

19 We've talked over the last four months several
20 times with the Board about short-term credit facilities.
21 We had a discussion this morning because the PMIB loan
22 is a short-term credit facility. These resolutions this
23 morning would authorize the Agency to enter into
24 facilities of this type up to a billion dollars.

25 You may recall during the fall we asked the

1 Board for authority to raise that authority up to two
2 billion dollars. I think as we thought about this
3 resolution here today, the two billion dollars was
4 simply, you know, much larger than we could ever
5 anticipate. We went out, tried to secure those kinds of
6 facilities, decided a more appropriate number would be
7 one billion dollars. That allows the continued
8 borrowing from the state investment fund, and we have a
9 commercial bank that is also providing us a facility of
10 this type.

11 The authority provided under the resolution
12 would not expire for 30 days after the meeting in
13 January of 2010 at which the Board has a quorum and can
14 vote on a continuing authorization of this type.

15 We've covered a lot of this already. The status
16 of the current bond markets are such that new bond
17 issuance is expected to be limited. Don't know when
18 that will free up. It's -- we certainly will be ready
19 and very willing to enter the bond market when it comes
20 back to us in a meaningful way.

21 We talked a lot with the Board over the last
22 four or five months about the bond market disruptions,
23 what it means to our debt portfolio. I think in the
24 single-family homeownership program we're also facing an
25 additional challenge, that is that the general mortgage

1 market is providing loan rates today in the 5 percent to
2 5.50 range.

3 We're going to talk in the follow-up
4 presentation later this morning about the current bond
5 market and the extremely high rate that you would have
6 to pay bond investors if we were to go to the bond
7 market today. So it simply doesn't provide us with a
8 cost of funds that would allow us to be competitive in
9 today's mortgage market.

10 And we expect at this point that if we were to
11 enter the market, we would use our large single-family
12 indenture, home mortgage revenue bond indenture. It is
13 rated double A2, double A-minus. This indenture is not
14 on watch for downgrade. Moody's has not sent us any
15 letters in that regard.

16 Mr. Chairman, if you'd like, I think we should
17 probably take these one at a time. I have a series of
18 them, so I'll stop here and ask if there are any
19 questions regarding Resolution 09-01.

20 ACTING CHAIRPERSON CAREY: Any questions?

21 MS. JACOBS: If there are no questions, I'd like
22 to move approval of this resolution.

23 MS. PETERS: Second.

24 ACTING CHAIRPERSON CAREY: It's been seconded.

25 Any further discussion?

1 Roll call, please.
2 MS. OJIMA: Thank you.
3 Ms. Peters.
4 MS. PETERS: Yes.
5 MS. OJIMA: Ms. Galante.
6 MS. GALANTE: Yes.
7 MS. OJIMA: Ms. Gay.
8 MS. GAY: Yes.
9 MS. OJIMA: Ms. Jacobs.
10 MS. JACOBS: Yes.
11 MS. OJIMA: Ms. Javits.
12 MS. JAVITS: Yes.
13 MS. OJIMA: Ms. Redway.
14 MS. REDWAY: Yes.
15 MS. OJIMA: Mr. Shine.
16 MR. SHINE: Yes.
17 MS. OJIMA: Mr. Carey.
18 ACTING CHAIRPERSON CAREY: Yes.
19 MS. OJIMA: Resolution 09-01 has been approved.

20 --o0o--

21 **Item 5. Annual Multifamily Bond Reauthorization;**
22 **Resolution 09-02**

23 ACTING CHAIRPERSON CAREY: On to multifamily.
24 MR. GILBERTSON: Okay. Resolution 09-02 is
25 reauthorization to issue bonds to finance our

1 multifamily loan programs. Similar volume limits apply,
2 slightly different. The volume limits would be equal to
3 the amount of bond principal being retired and eligible
4 for re-funding equal to the dollar amount of new private
5 activity bond volume cap received or awarded by CDLAC
6 and up to \$800 million for qualified 501(c)(3) project
7 sponsors and federally taxable bonds.

8 Like the single-family resolution, this
9 resolution would allow the Agency to use any of the
10 previously approved forms of indenture. We have
11 included -- and one of the reasons your Board binder is
12 so thick this time is that there's three new conduit
13 financing indentures that are incorporated in there, and
14 you will be authorizing the use of that form of
15 indenture if this resolution is adopted. We're going to
16 talk about that in a little more detail in just a
17 moment.

18 The basic financing resolution, though, also
19 provides for all of the related financial agreements as
20 we discussed before. It allows us to reinvest proceeds,
21 you know, hedge interest rate exposures to the extent
22 that we feel we need to, and hire advisors and
23 consultants as necessary to run our programs.

24 It's the same limit on the short-term credit
25 facilities. This is not a new one billion dollars.

1 It's the same one billion dollars. And allows us to
2 continue to borrow for purposes of loan warehousing, and
3 it also has the same overlap of authority so that we
4 have ongoing authorization to issue debt as those
5 markets present themselves.

6 The multifamily conduit financing program. The
7 bond market is extremely challenged today. I think it's
8 going to extremely restrict new debt issuance for
9 multifamily programs, and in this case I think we have
10 one other thing to keep in our minds and that is the
11 letter from Moody's. We have two of them now. And the
12 current indenture that we use to finance our multifamily
13 program is enhanced by the Agency's general obligation
14 rating.

15 It would be very challenging to try to go to the
16 market today with this cloud of this watch for downgrade
17 hanging over our heads. We have to resolve that matter
18 before we use an indenture backed by the G-0 of the
19 Agency.

20 So I think what we're looking at is we're trying
21 to come up with an alternative for some of those project
22 sponsors that had applied to this Board for a loan
23 commitment during 2008. Many of them were at that
24 September meeting. You may recall Terri, Steve, and I
25 had come back from New York. The bond market had

1 totally froze up. And we were faced with this challenge
2 of what do we do with these borrowers.

3 At the bottom of this slide we've listed some of
4 the projects that potentially could take advantage of
5 this conduit financing model. They include Mission
6 Gardens, Montecito Village -- you can read them on
7 there.

8 You know, Bob Deaner suggested maybe two to four
9 of these loans might go forward in the conduit
10 financing, you know, model. So let's talk about what
11 is -- what is all the paper that's incorporated and
12 attached to this resolution.

13 I think there's three documents: Exhibit A, B
14 and C. They really break into two forms of credits.
15 One would be a bond indenture that would take advantage
16 of credit enhancement that Fannie Mae or Freddie Mac
17 could provide.

18 Okay. If we were to go down that path and use
19 those types of guarantees and credit enhancement, we do
20 a publicly offered bond. We wouldn't be nearly as
21 involved in the structure and the loan terms and bond
22 terms because our role in this would not be as lender.
23 It would be as the issuer of tax-exempt bonds. So all
24 of the payment stream coming through on the loans would
25 flow through to the ultimate investor in the bonds. The

1 Agency has a role as administrator and issuer of bonds
2 and would get a very modest fee to cover our costs and
3 ongoing responsibilities.

4 The alternative to a conduit financing model
5 that uses credit enhancement from the government
6 sponsored enterprises is to do a form of private
7 placement, unrated, unenhanced bonds that really takes
8 on the characteristics of a bank loan.

9 So if a multifamily affordable housing sponsor
10 wanted to go and get financing from a bank, they would
11 have every right to go and do that, and they would
12 negotiate the terms.

13 In this scenario as issuer of tax-exempt bonds,
14 we would again play the role of the issuer because we
15 are a municipality and we can issue tax-exempt bonds,
16 but we would not be as involved with the structuring of
17 loans and bonds because all of the cash would flow
18 through from the loan payment to the ultimate investor
19 of the bonds. Typically in this scenario the investor
20 in the bonds or the bonds that are placed would be
21 placed to the commercial bank that is serving as the
22 lender.

23 I don't know, Ms. Galante, if you've experienced
24 any of these in the past, but this is the type of thing
25 that we're -- we're trying to provide some avenue for

1 some of these borrowers who are caught up in this whole
2 crisis.

3 The important part is that we're not the lender.
4 We're only the issuer. So we don't service the loan.
5 We don't have a tremendous amount of responsibility for
6 the oversight of the project. We will have to make sure
7 that the income limits of the tenants are appropriate,
8 and there will be some ongoing oversight for that.

9 There's no credit risk to the Agency. There's
10 no real estate risk to the Agency. The -- all of the
11 cash is from whatever is derived from the loan payments,
12 and the collateral provided to the bond investor will
13 flow through to the ultimate investor in the bonds.

14 There's some things that we're going to start
15 convening working groups on next week. We have to
16 develop some program policies. We need to determine
17 what our fees will be for this type of a program. I
18 don't expect them to be very great. This isn't the type
19 of program that we would replicate and do on an ongoing
20 basis, probably, because we would much rather be a
21 lender. That's a big part of what this Board is all
22 about.

23 We have to come up with guidelines. If we're
24 going to have lower rated or unrated debt, we'd probably
25 want to restrict who can buy those bonds. We don't want

1 them to get in the wrong hands, somebody who doesn't
2 understand the risks associated with those.

3 Maybe that's a good time to stop and just see if
4 there's any questions regarding the multifamily
5 financing resolutions or these three forms of new
6 indenture that we're asking for the Board to authorize.

7 ACTING CHAIRPERSON CAREY: Yes.

8 MS. GALANTE: So on the model where you were
9 describing just being the issuer, and maybe Bob wants to
10 speak to this, have you -- are you talking about just
11 for these projects that are stuck and maybe don't have a
12 place to go right now and didn't go through a local
13 issuance process so they can't go back?

14 MR. DEANER: That is absolutely correct. They
15 can't go back. They'd have to give the allocation back
16 and start over. So that's where we're basically
17 assisting them to finish the project so they can get
18 their financing and move forward.

19 MR. GILBERTSON: We should probably discuss, I
20 failed to mention this, in early December the California
21 Debt Limit Allocation Committee extended the authority
22 to issue tax-exempt bonds for these projects, and CalHFA
23 holds that issuance authority, and we have until the
24 middle of April or thereabouts to issue bonds for these
25 projects.

1 MS. GALANTE: So they can't go back and get
2 resolutions from the local agency, so this is really
3 their only --

4 MR. DEANER: Right. They --

5 MS. GALANTE: -- they've incurred costs and --

6 MR. GILBERTSON: Or they could go back and
7 reapply to CDLAC for 2009 volume cap. This is 2008
8 calendar volume cap that we've received on a
9 carry-forward basis.

10 MR. DEANER: Yeah, the volume cap would be lost,
11 and they would have to reapply. And as you know,
12 they've got -- they've sunk costs into, you know, making
13 the finance work.

14 And we thought -- I went to Bruce and said with
15 the projects -- of the eight, four or five have other
16 lenders that they could move forward with, so we thought
17 that this was a good option to help them to move forward
18 with the projects until such time as we can get back and
19 be a lender.

20 MS. GALANTE: So this is really an accommodation
21 to these stuck deals. We're trying to help them.

22 MR. DEANER: Absolutely.

23 MS. GALANTE: They came to us. Okay.

24 And then on an ongoing basis for new, you don't
25 anticipate continuing to do this for new projects, just

1 being --

2 MR. DEANER: No.

3 MS. GALANTE: -- the issuer?

4 MR. DEANER: No, absolutely not.

5 ACTING CHAIRPERSON CAREY: Other questions?

6 MS. JAVITS: We've talked a lot about the fact
7 that we're not at risk, but is there risk? Is there any
8 risk to the Agency?

9 MR. GILBERTSON: I think -- there's no financial
10 risks or credit risks. I think reputational risk,
11 potentially. Our name will be on the bonds. Even
12 though they are kind of a conduit financing, CalHFA will
13 be associated. There will be no economic financial harm
14 to us, but if the project that was financed were to
15 implode, there could be a little bit of reputational
16 risk. That's --

17 MS. JAVITS: As the bond issuers.

18 MR. GILBERTSON: That CalHFA was involved.

19 MR. DEANER: Right. But then it goes the
20 opposite. You know, we're helping them, too. We're
21 maintaining our reputation, that we stepped up to help
22 them finish this project.

23 MS. GALANTE: I just --

24 ACTING CHAIRPERSON CAREY: Yes, Ms. Galante.

25 MS. GALANTE: -- had one other question. Bruce,

1 when you went through your initial summary, you didn't
2 talk about the Number Four, the refinancing of that.
3 Did you leave that off purposely or -- the up to 300
4 million per financing?

5 MR. GILBERTSON: Oh, the 300? Yeah, I
6 consciously -- we've had that in there as authority to
7 the Agency for a number of years. We rarely utilize it,
8 but we certainly do. We've asked the Board for
9 \$300 million to acquire portfolios. And so this is -- I
10 can't even remember the last time we've utilized that
11 authority. But we think it's one of the authorizations
12 that the Board might want to give us in case something
13 did present itself.

14 MS. GALANTE: Okay. So this isn't -- I'm
15 reading the words a little more closely now. This is
16 only refinancing of existing multifamily loans that the
17 Agency is somehow needing to step into, not this broader
18 program that we've had some conversation about, about
19 just refinancing existing loans in general?

20 MR. GILBERTSON: I think the closest thing that
21 I can think of that would utilize that type of
22 authority, and this precedes my involvement as the
23 director of financing, the Agency acquired portfolio
24 loans from Fannie Mae in about 2000. I think it was
25 \$270 million worth of loans. These were Fannie Mae 236,

1 section 236, loans. We acquired them through a bond
2 sale that we placed back to Fannie Mae. So we simply
3 took title.

4 The programmatic reason for doing that at that
5 time as I recall was that we would have direct access to
6 the borrowers, and we thought we could do a lot of
7 preservation activity within that portfolio. Over time
8 we've done a few preservation loans with those
9 borrowers, but not a great deal.

10 MS. GALANTE: I know this probably isn't a good
11 time, you know, obviously with the bond market and such,
12 but I -- maybe this is a business plan discussion, but I
13 really do want to talk about the Agency allowing
14 refinancing on -- for borrowers on the multifamily
15 portfolio. It's just incredibly frustrating that the
16 only way you can refinance a CalHFA loan is if you sell
17 your property or it's in trouble. And it's just --
18 it's -- I think it's a huge problem for CalHFA for
19 people continuing to do business with CalHFA on
20 multifamily.

21 ACTING CHAIRPERSON CAREY: Further discussion?

22 MS. JACOBS: Yes, sir.

23 I'm going to try to say this right. These
24 particular projects that you're proposing the conduit
25 financing for, a number of them are dependent on

1 take-out financing through Prop 1C or Prop 46 from HCD.
2 That financing is not available now. Does that change
3 the risk on this?

4 MR. DEANER: I don't think -- it doesn't change
5 the risk to CalHFA. It would change the risk to the new
6 lender, if it's Freddie Mac that's going to do the loan
7 or B of A, because those are the sources that guarantee
8 the borrowers, that they -- the borrowers would need to
9 let the new lender know that this financing -- what they
10 would -- they would know that this financing is part of
11 the takeout, and they would need that to assess that
12 risk as the lender.

13 So they would need to determine if they were
14 moving forward with the commitment with the Prop 1C or
15 46 coming in at a later date. So they would need to
16 determine the risk as the new lender.

17 MS. REDWAY: Can I? I just wanted to add
18 that -- in response to Lynn's question a little, that
19 CDLAC has many conduit issuers in front of it with many
20 of these projects that are in the exact same situation,
21 where 1C money and Prop 46 money is not going to be
22 available to the projects. So we're not sure whether
23 they will be able to, you know, use the allocation
24 that's been given to them.

25 So CalHFA acting as a conduit issuer in this

1 case is not in any different position than CFCDA or CMAF
2 or whoever else is out here, the local redevelopment
3 agencies who are doing this. So what is at risk is the
4 allocation will be lost and the deal won't go through.

5 MS. JACOBS: Right. And, you know, so the
6 question is is there any appetite for this product when
7 it comes right down to it? You'll just have to see.

8 MS. REDWAY: And we didn't -- I think the --
9 between CDLAC and CalHFA, we felt we wanted to give the
10 projects every opportunity to close the deal. We didn't
11 want to be the one saying, "Sorry, we're not going
12 help," so.

13 MR. GILBERTSON: Bob, you might want to talk a
14 little bit, we have two projects that we think are
15 more -- much further along in the process.

16 MR. DEANER: Well, there's --

17 MR. GILBERTSON: The lender is identified.

18 MR. DEANER: The lender -- yeah, the lender is
19 Freddie Mac, and they've -- they've issued commitments,
20 commitments to the borrowers.

21 There is one other project that is close to a
22 commitment, and the other ones are working through their
23 process, so I know for a fact two of which are pretty
24 solid with commitments from Freddie Mac as the takeout
25 lender.

1 Now, those are ACT rehab deals. They're a
2 little different from construction, so your risk is less
3 as a lender under that scenario with Freddie under
4 reconstruction.

5 MS. JACOBS: Right.

6 MR. DEANER: And those -- those projects are
7 not -- are having a harder time finding replacement
8 moneys, there's no doubt. But the list we put on the
9 slide is the list of the deals that are still trying to
10 work out a deal with other lenders to make their
11 projects work. And if we can, we wanted to be there as
12 a conduit issuer. If we can't, the allocation will go
13 back to CDLAC.

14 MS. JACOBS: Okay. I mean, I think it's great
15 that we're trying to provide as many alternatives as
16 possible. I just wanted to make sure everybody knew
17 that, you know, we may be developing great programs that
18 will --

19 MR. DEANER: Well, this -- and again, we did --
20 this is a -- this is a --

21 MS. JACOBS: -- not be as utilized as we'd like.

22 MR. DEANER: Yeah. And for us this is a
23 one-time, just to help out the current deals to see if
24 they can work and go forward. This is not a business
25 model of where we want to be. We're a lender. This is

1 what -- you know, we want to get through this and get
2 the bond market back so we can start doing business
3 again.

4 MS. JACOBS: Thanks.

5 ACTING CHAIRPERSON CAREY: Further discussion?

6 I'd like to note for the record that Brooks
7 Taylor is here. Thank you for being here.

8 Would someone care to take a -- make a motion
9 here on this?

10 MS. PETERS: So moved.

11 MS. GAY: Second.

12 ACTING CHAIRPERSON CAREY: We have a motion and
13 a second. Any further discussion?

14 Let's call the roll.

15 MS. OJIMA: Ms. Peters.

16 MS. PETERS: Yes.

17 MS. OJIMA: Ms. Galante.

18 MS. GALANTE: Yes.

19 MS. OJIMA: Ms. Gay.

20 MS. GAY: Yes.

21 MS. OJIMA: Ms. Jacobs.

22 MS. JACOBS: Yes.

23 MS. OJIMA: Ms. Javits.

24 MS. JAVITS: Yes.

25 MS. OJIMA: Ms. Redway.

1 MS. REDWAY: Yes.

2 MS. OJIMA: Mr. Shine.

3 MR. SHINE: Yes.

4 MS. OJIMA: Mr. Carey.

5 ACTING CHAIRPERSON CAREY: Yes.

6 MS. OJIMA: Resolution 09-02 has been approved.

7 --oOo--

8 **Item 6. Resolution 09-03 authorizing applications to**
9 **CDLAC for private activity bond allocations for the**
10 **Agency's homeownership and multifamily projects**

11 ACTING CHAIRPERSON CAREY: You're still up,
12 Bruce.

13 MR. GILBERTSON: Okay. Thanks, Mr. Carey.

14 The third of the financing resolutions is
15 relatively simple. Each year we come before this Board
16 to request specific authorization for the Agency to
17 apply to the California Debt Limit Allocation Committee
18 for private activity volume cap. This is the engine
19 that drives CalHFA tax-exempt issuance authority. We
20 may not think it today, but eventually there will be a
21 bond market where there is a benefit of tax exemption.

22 So this would simply authorize the executive
23 director and the executive director's delegates to apply
24 to CDLAC for an amount not to exceed \$900 million for
25 single-family lending and up to \$400 million for

1 multifamily. These amounts may be significantly higher
2 than what we might apply for, but the presumption is
3 that the Board would want to apply for it if it did
4 become available.

5 You may remember last fall we had to go through
6 a process to slightly amend this similar authorization
7 from 2008 to increase it because of the HR3221
8 legislation that increased volume cap, as a result of
9 the July legislation at the federal level.

10 Let me stop there, and I'd be happy to respond
11 to any questions.

12 ACTING CHAIRPERSON CAREY: Questions?

13 MS. REDWAY: I'll move.

14 MS. PETERS: I'll second.

15 ACTING CHAIRPERSON CAREY: Moved and seconded.

16 Any further questions?

17 Seeing none, we'll call the roll.

18 MS. OJIMA: Thank you.

19 Ms. Peters.

20 MS. PETERS: Yes.

21 MS. OJIMA: Ms. Galante.

22 MS. GALANTE: Yes.

23 MS. OJIMA: Ms. Gay.

24 MS. GAY: Yes.

25 MS. OJIMA: Ms. Jacobs.

1 MS. JACOBS: Yes.

2 MS. OJIMA: Ms. Javits.

3 MS. JAVITS: Yes.

4 MS. OJIMA: Ms. Redway.

5 MS. REDWAY: Yes.

6 MS. OJIMA: Mr. Shine.

7 MR. SHINE: Yes.

8 MS. OJIMA: Mr. Carey.

9 ACTING CHAIRPERSON CAREY: Yes.

10 MS. OJIMA: Resolution 09-03 has been approved.

11 --oOo--

12 **Item 8. Resolution 09-05 regarding authorization for**
13 **loan sales.**

14 ACTING CHAIRPERSON CAREY: I'm going to, just to
15 simplify things, Bruce, since you're already so
16 comfortable there, perhaps we could take item 8 out of
17 order.

18 MR. GILBERTSON: Okay. So the fourth resolution
19 that I have to present is a follow-up to our discussion
20 at the December 12th Board meeting. We informed the
21 Board that we were working with Fannie Mae, Freddie Mac,
22 and talked to several commercial banks about potentially
23 selling single-family and/or multifamily loans that we
24 own to try to convert them to cash.

25 So this is a formal authorization from the Board

1 now for us so enter into such loan sales. It would
2 allow us to sell either single-family or multifamily
3 loans. We didn't establish limits. You know, we went
4 back and looked at the minutes from the prior meeting,
5 and it talked about guidelines, so we wanted to
6 establish a framework for us to think about loan sales
7 as we go forward.

8 Clearly, if you read the memo and the
9 resolution, the intent here is to provide liquidity for
10 debt restructuring and what we refer to as continued
11 normal Agency operations. Certainly in this
12 environment, with tight credit and the way the financial
13 markets are performing, to the extent that we have more
14 cash on hand for those unanticipated events, we're going
15 to be better off for that.

16 During the course of the morning you're going to
17 hear about the business plan. You're going to hear
18 about some of the things that are continuing to hammer
19 away, chip away, at the nest egg that Steve referred to:
20 The honoring the pipeline; we're going to have some
21 growing GAP insurance claims that we have to honor,
22 those types of things.

23 So following up on the \$2-billion loan tape that
24 we compiled and shared with Fannie Mae, Freddie Mac, and
25 at least one commercial bank, we have received some

1 pricing proposals. We're actively working on a
2 potential sale of single-family loans in the
3 neighborhood of 95 or a hundred million dollars. Part
4 of those would be sold to Fannie Mae, and part of those
5 I believe would be sold to Freddie Mac.

6 This -- this resolution then would give us that
7 authority, would help us to consummate the transaction
8 with the buyer of the loans. And the resolution
9 requires that we would report back to this Board any
10 sales activity that we entered into.

11 Let me stop there and open it up to see if
12 there's questions from any Board members.

13 MS. REDWAY: I'm sorry, I might have missed --
14 you might have said this and I wasn't paying attention.
15 You said you're actively in discussions for a sale. Can
16 you tell us about how much?

17 MR. GILBERTSON: Yeah, exactly. Certainly
18 that's one of the important things. The initial, we
19 have pricing indications we received in December. These
20 are all above par, you know, about 101. The market
21 moves daily. We don't think the market has moved away
22 from us. It's probably at about the same place. So we
23 think we would actually get paid more than par for the
24 loans that we are successful in transferring.

25 MS. GALANTE: And the volume?

1 MR. GILBERTSON: Is about a hundred million
2 dollars, what we're looking at right now.

3 MS. GAY: You've floated how much on this
4 discussion? How much was --

5 MR. GILBERTSON: Two billion was shared with
6 them. And it gets very painful as you work through all
7 this. There's a high concentration of FHA-insured loans
8 in there. We've learned some important things as we've
9 talked to people about buying FHA loans.

10 FHA-insured loans typically go to the
11 marketplace in the form of a mortgage-backed security.
12 All of the loans we have we originated years ago, so
13 they're called seasoned loans. There's a huge penalty
14 that we'd likely pay if we tried to do this in today's
15 market because the market investors in these FHA-insured
16 loans come to them in the form of a mortgage-backed
17 security are going to look to the investors if they're
18 what is called reperforming loans.

19 A reperforming loan is a loan that originally was
20 in a security but it was required to be pulled out
21 because the borrower's in default. And then through a
22 modification or through working with the loan servicer,
23 the borrower began to perform again, and so it's gone
24 back into a pool so the investor is thinking that, "I
25 have some risk here potentially because this borrower

1 once was in default and then had to be pulled out of a
2 pool."

3 We're working through this. You know, we're
4 hopeful that maybe we can come up with something where
5 we can package some of the FHA-insured loans as well,
6 but at this point we're uncomfortable taking a
7 discounted price that may be discounted by as much as
8 10 percent. That's kind of the indications that we're
9 receiving, so -- so we'll work with them and see where
10 we end up.

11 I think there are other conventionally insured
12 loans that we can share with potential buyers. You must
13 remember, though, is we're trying to sell a loan asset
14 that might have been originated in 2005 or 2006. And
15 when they look at the loan to the depreciated home value
16 today, they're saying, "Why in the world would I want to
17 buy that loan because the security behind it is not as
18 large as the loan balance," so.

19 MS. GAY: Are you retaining servicing on these?

20 MR. GILBERTSON: That's something that we're in
21 the middle of. Actually, servicing on these loans is
22 going to be split up amongst the Agency and other
23 servicers. I don't -- Gary may know the specific
24 parameters of who has the servicing on this hundred
25 million, but we're working through that because we've

1 got to come up with a mechanism that makes sense because
2 I think in both instances Fannie Mae and Freddie Mac
3 will want to make sure that they have recourse to that
4 service.

5 MS. GAY: Right.

6 MR. GILBERTSON: So that's one of the things
7 that we're going to be working through.

8 MS. GALANTE: This might have been discussed at
9 the last meeting that I missed, so I apologize. We're
10 probably going over old ground, but -- so this hundred
11 million is all single family. Is there multifamily
12 loans in here, too?

13 MR. GILBERTSON: Yeah. The hundred million I
14 referred to that is probably the first portfolio loan
15 sale that we're going to work on is all single family.
16 We have about 280 to 300 million dollars of multifamily
17 loans that we have shared as well.

18 Conversations with the GSEs have not gone as
19 well on that. I mean there's a lot of due diligence, as
20 you might imagine, on a multifamily loan. They want to
21 look at a lot of things. The market is not as liquid
22 for those.

23 The single-family loans are like a commodity.
24 They're traded all the time, so it's a much easier
25 transaction.

1 We had some meetings earlier this week with
2 another potential borrower with a little different
3 structure. It's just beginning, and it might allow us
4 to achieve some of the objectives that we have on the
5 debt side and serve to do a -- a loan sale in kind of a
6 different form. Personally I think it's premature
7 because I don't even understand all of the concepts yet,
8 but we'll be having follow-up discussions with this
9 particular entity in the coming weeks.

10 MS. GALANTE: I'm just, you know, as a borrower
11 trying to think about the impact of loan sale on the --
12 on the actual property. On the single-family loan, you
13 know, we get letters all the time that your loan's been
14 transferred to some new servicer and it doesn't really
15 affect anything, but on the multifamily side there's all
16 kinds of interrelationships with CalHFA, you know, on
17 the borrower. So I'm trying to envision how that all
18 works.

19 MR. GILBERTSON: Well, I --

20 MS. GALANTE: Most lenders don't hold the
21 reserve accounts the way CalHFA does. I mean, you know,
22 my mind just has, you know, lots going through it about
23 how that would actually work on a loan sale.

24 MR. GILBERTSON: Yeah, there's a number of
25 challenges. I think the initial model that we've been

1 thinking about -- because we have a fully developed loan
2 servicing and asset management group, that we want to
3 retain that.

4 MS. GALANTE: Okay.

5 MR. GILBERTSON: Okay. So what we're trying to
6 do is to potentially sell off the annuity, the income
7 stream, that's coming through on the loan and still be
8 involved as kind of the lender, the servicer that the
9 borrower seeks.

10 MS. GALANTE: Thank you.

11 ACTING CHAIRPERSON CAREY: So, Bruce, what is --
12 we gain liquidity. What is the cost to the Agency in
13 selling those loans off long term?

14 MR. GILBERTSON: Well, as long as we feel we're
15 getting appropriate value for the loans, I think the
16 economic analysis is you look at this from a present
17 value standpoint. And we'll certainly go through this,
18 but we believe we would only sell when we get an
19 appropriate value for the asset that we're selling. I
20 think we should be neutral on that perspective.

21 It's allowing us to achieve the objectives of
22 all of this debt restructuring, getting rid of some of
23 the poorly performing VRDOs.

24 MR. SPEARS: The message that we would like for
25 you to get is that this is not a fire sale. We want to

1 get value for this. This is a market sale. If it
2 doesn't make economic sense, we will not go forward with
3 it if it doesn't help our structure.

4 And the question has come up how will this help
5 us with our Moody's debate? And, you know, it will be
6 less exposure to the California real estate market.
7 That should make them happy. But on the other hand,
8 we'll have fewer assets. And in the analysis that they
9 will have to make that we believe that we can make them
10 is with the assets left against the debt that's left, we
11 will be in better shape than we were before. But they
12 will have to perform an analysis of the loans that
13 remain in our portfolio compared to our debt obligations
14 and see how they match up.

15 MR. GILBERTSON: Another way to think of this
16 is, you know, our world in working with the rating
17 agencies, we do frequent updates of consolidated cash
18 flows. So if we sell off loans that are supporting
19 bonds that have been issued, we will identify those
20 loans and do a scenario where we have sold the loans off
21 to see that the cash flows of this indenture perform as
22 well or better than they would have without the loan
23 sale.

24 ACTING CHAIRPERSON CAREY: I'm sorry,
25 Ms. Javits.

1 MS. JAVITS: Along those same lines, I guess
2 what I'm trying to understand with this resolution is
3 the -- the Board is authorizing these sales to go
4 through, and the only limit, really, on pricing or just
5 in terms of the resolution itself is that these will
6 meet the objectives, you know, for sale, the price
7 you'll accept would meet the objectives of the debt
8 restructuring plan.

9 I mean, I guess I'm just wondering just from a
10 due diligence perspective is there -- I just want to at
11 least raise the question is there sharper language or
12 more pointed language that should be in here about what
13 pricing we would accept? Because that -- that seems
14 pretty broad to me. I mean there are many things that
15 could arguably meet the terms of the debt restructuring
16 plan.

17 I know there's a lot of pressure on the Agency
18 from a number of different vantage points right now,
19 short term and long term, so I'm just -- I'm real asking
20 from a due diligence perspective. Obviously we have
21 confidence in the staff and the judgments that you're
22 making every day. Just from the perspective of the
23 Board, is there anything --

24 MR. HUGHES: Well, I --

25 MS. JAVITS: Can you suggest anything more

1 pointed we might consider?

2 MR. GILBERTSON: Go ahead, Tom.

3 MR. HUGHES: Ms. Javits, that's a good question.
4 Just to sort of fill you in on the wording of the
5 resolution, you know, we struggled for quite a while to
6 try and come with the resolution because as you recall
7 at the December Board meeting, we essentially asked the
8 Board the question of whether we would like to bring
9 individual deals back to the Board or whether we would
10 get like a blanket resolution.

11 The Board had indicated that it didn't
12 necessarily want to see individual transactions,
13 probably because that would mean we would have to
14 schedule -- we might have to schedule more Board
15 meetings to try and accommodate that because of the
16 timing of Board meetings every two months.

17 The Board did indicate in the minutes that it
18 wanted some type of guidelines, and we struggled with
19 the notion of what kind of guidelines would be in there
20 given the fact that, you know, from day to day we don't
21 know what these deals are going be. They have changed
22 rapidly. They have been hot. They have been cool.
23 They have been all over the board. So it's a daily
24 thing.

25 We did think that the objective that we were

1 trying to achieve and that the Board was authorizing us
2 to do was to identify deals that met the objectives of
3 achieving liquidity, taking out bad bonds on sort of a
4 broad basis, and that we thought were the guidelines
5 that the Board was asking for.

6 I'm not sure we were really able to identify the
7 parameters of any particular deal with enough
8 specificity to write that in there. I think at the end
9 of the day probably that comes back to the decision
10 whether the Board wants to see each and every proposed
11 deal or whether it wants to see -- you know, whether it
12 wants to authorize the staff to enter into a deal in
13 some general terms and objectives, really.

14 MR. GILBERTSON: Just to add to what Tom said, I
15 think a couple other things that we've learned as we go
16 through this process is we had hoped originally to take
17 full loans and just sell them for cash. It doesn't
18 appear that's going to be. In some cases that may
19 happen, but as we talked about even with these
20 FHA-insured loans, the notion is that we would create a
21 security.

22 And so then how specific do we make the
23 language? Do we have the authority to sell a security
24 today? I think we probably at the Agency level think we
25 have the authority to sell securities. So we -- it just

1 is an evolving process, and I'm not sure what it is we
2 ultimately would be selling.

3 MS. JAVITS: Would we -- would we ever consider
4 selling at a discount?

5 MR. GILBERTSON: I would suggest that there are
6 situations that we might want to consider selling at a
7 discount based -- based off the other risks that we take
8 on that loan. For example, if we have a conventionally
9 insured loan that has our mortgage insurance and then we
10 have to supplement or augment the mortgage insurance on
11 a number of our conventionally insured loans and if we
12 could sell it without that additional layer of
13 insurance, it's removing one of the risk factors from
14 the Agency, and maybe we would be willing to accept a
15 slight discount.

16 MR. HUGHES: There's also some legal issues
17 involved in doing that that we're trying to work
18 through, particularly on the single-family side with
19 indenture requirements as to pricing of the loans and
20 selling at a discount. There's specific requirements.
21 So all those are things we're still trying to work out
22 as well.

23 MS. REDWAY: I think Carla raised a good point
24 in that the -- what the staff was suggesting to the
25 Board -- which is they will not sell at anything, that

1 it's not a fire sale, we're going to get more value --
2 and what the resolution actually reads are different.

3 So the resolution does not include anything
4 regarding pricing on it. It doesn't say it has to be
5 big value or if it's discounted it has to come back to
6 the Board. It doesn't say anything like that. So the
7 Board should be aware of that. I think that's more -- I
8 don't think we want to see transaction by transaction,
9 but I think the issue in front of us is whether -- that
10 Carla raised is whether to include an item here saying
11 we -- something about the value or not and whether we
12 want to give full discretion to the staff if its legal
13 to sell at a discount.

14 ACTING CHAIRPERSON CAREY: I'm wondering
15 procedurally whether -- the resolution provides the
16 legal authority for you to make the sale. But there's
17 nothing that prevents the Board from giving additional
18 direction outside of the resolution.

19 MR. HUGHES: Right. That is true. We could
20 amend the resolution to accommodate that. I think
21 honestly what we were struggling with at the staff level
22 was that the Board's suggestion was to come back with
23 guidelines, and we weren't sure what those guidelines
24 were. So we can clearly change this to require that we
25 come back to the Board for specific approval of any

1 particular transaction that was sold at below par. I
2 think we could do that.

3 MS. REDWAY: That would be --

4 MR. HUGHES: The only caveat I would have is
5 realistically this may or may not be true in any given
6 deal, but we may have to come back at an interim time
7 between Board meetings to do that, depending on the
8 dynamics of each deal.

9 MS. REDWAY: I guess I -- Bruce, would that
10 work?

11 MR. GILBERTSON: Yeah, I think that would work.
12 Yeah.

13 MS. GAY: And I guess I just want to make a
14 comment, that we should be advised that given the way
15 the market's still going, the notion of a declining
16 value portfolio may push us to a discounted sale option
17 more than we think today, you know.

18 MR. GILBERTSON: Yeah.

19 MS. GAY: The reality is that the value is going
20 down on your portfolio.

21 MR. GILBERTSON: Right.

22 MS. GAY: And it may not feel like a fire sale
23 on the day we have to then sell.

24 MS. GALANTE: I would just, though, concur that
25 in this environment where, again, we're looking at

1 trying to sell these loans for liquidity, I do think we
2 want to be careful of not signaling that we're going to
3 do fire sales. So if the staff feels like it's going to
4 get to the point where we need to discount, I think that
5 requires -- I think it should require another
6 conversation.

7 MR. GILBERTSON: And I -- quite honestly, I
8 think we would feel more comfortable coming back to the
9 Board before we did that.

10 But certainly, Tom, we could amend.

11 MR. HUGHES: Absolutely.

12 MR. GILBERTSON: There's one other thing that we
13 talked about, at least Tom and I, before we prepared the
14 resolution was is there a limit, is there a dollar
15 amount, that you want to put on that? We shared a
16 \$2-billion tape. Don't know that we ever expected that
17 we would sell all two billion dollars, but is there an
18 upper limit that the Board is comfortable with or
19 wouldn't want us to exceed without coming back to them?

20 ACTING CHAIRPERSON CAREY: Ms. Jacobs.

21 MS. JACOBS: The way I read the resolution it
22 says that this is in concert with the debt restructuring
23 plan, which I believe we should, you know, review at
24 every meeting from now on. And so to me that provides
25 some limits, but I would be very happy if our counsel

1 could give us a sentence to add to this resolution that
2 would talk about discounting or below par coming back to
3 the Board. I think if the Board members make up the
4 sentence, it doesn't work as well as if our counsel
5 does.

6 MR. GILBERTSON: While Tom thinks of that
7 sentence, I want to make sure -- I want to make sure
8 that we added two things. It's for debt restructuring
9 and continued normal Agency operations. The idea behind
10 those words was we have some loans that are
11 unencumbered. They're not attached to bonds. So if we
12 were to sell those assets, those assets, that liquidity,
13 newfound liquidity, could be used for a variety of
14 purposes, and wouldn't the Board want us to be able to
15 do that so that we can, you know, increase the size of
16 the nest egg.

17 MS. GALANTE: But that's covered here, is it
18 not?

19 MR. GILBERTSON: It is. I just want to make
20 sure. Lynn focused on the debt restructuring, and
21 that's one of the components. We're trying to achieve
22 two -- two objectives.

23 MS. JACOBS: Right. It's just that the
24 restructuring plan is spelled out there.

25 MR. GILBERTSON: Yeah. Much more in-depth on

1 the debt restructuring.

2 ACTING CHAIRPERSON CAREY: No pressure.

3 Lightning legal services here.

4 MR. HUGHES: Here's what I would suggest. I can
5 suggest a sentence. I think really the motion when it's
6 ultimately phrased simply has to incorporate this
7 concept, and I can make sure that the sentence makes
8 sense in the context of it.

9 It seems to me that perhaps what we should do is
10 there's a paragraph one and two in the resolution part.
11 One is sort of the general resolution, and two says that
12 we'll come back with the details. I think maybe we
13 should add a new two, make the current two, three. And
14 the new two will say something to the effect of
15 notwithstanding paragraph one above any sale of a pool
16 of loans at a price below par shall be brought back to
17 the Board for further approval.

18 And if that doesn't turn out to be a
19 hundred-percent grammatically correct, we can tweak it,
20 but I think the concept would go into the resolution.

21 MS. JACOBS: I'd like to move approval of the
22 resolution with the addition of a new item number two as
23 just cited and moving the current number two to be
24 number three.

25 MS. JAVITS: Second.

1 MR. SPEARS: One thing I did want to clarify
2 with that in mind, I want to make sure it's all right
3 with the Board to have these discussions with Fannie Mae
4 or Freddie Mac or whoever the investor is, and those
5 discussions may wind up with a knowledge that, you know,
6 we're going to be below par. I think that's only
7 prudent because if we did come back and have a
8 discussion, we would need enough data for you.

9 MS. JAVITS: Yes. Yes.

10 MR. SPEARS: I just wanted to make sure that's
11 okay with the Board.

12 ACTING CHAIRPERSON CAREY: You'd be bringing
13 back the proposal, in essence.

14 MR. SPEARS: Yes.

15 MR. HUGHES: I'd just like to add, I think I
16 mentioned it in December, one of the primary reasons
17 we're asking for this resolution, actually the existing
18 financing resolutions cover some of the same ground, but
19 we contemplated at some point in these discussions with
20 various parties we talked about time lines for getting
21 these deals closed, and obviously we were trying to move
22 them as quickly as possible.

23 I anticipated that certainly on deals of the
24 size of the \$2-billion tapes we sent out, that the
25 buyer's counsel would want an opinion of counsel from us

1 that the Board had authorized these transactions, and we
2 saw this resolution as having that and being able to
3 close within that time period. So I do think if these
4 do come together and those time lines are at issue, we
5 would come back with a below-par deal potentially
6 between scheduled Board meetings.

7 MS. JACOBS: Call the question.

8 ACTING CHAIRPERSON CAREY: Okay. With that
9 we'll have roll call.

10 MS. OJIMA: Thank you.

11 Ms. Peters.

12 MS. PETERS: Yes.

13 MS. OJIMA: Ms. Galante.

14 MS. GALANTE: Yes.

15 MS. OJIMA: Ms. Gay.

16 MS. GAY: Yes.

17 MS. OJIMA: Ms. Jacobs.

18 MS. JACOBS: Yes.

19 MS. OJIMA: Ms. Javits.

20 MS. JAVITS: Yes.

21 MS. OJIMA: Ms. Redway.

22 MS. REDWAY: Yes.

23 MS. OJIMA: Mr. Shine.

24 MR. SHINE: Yes.

25 MS. OJIMA: Mr. Carey.

1 ACTING CHAIRPERSON CAREY: Yes.

2 MS. OJIMA: Resolution 09-05 has been approved
3 with the amended language.

4 ACTING CHAIRPERSON CAREY: Great. We're going
5 to take a ten-minute recess for the benefit of our
6 reporter, and when we return we'll be on item 7.

7 (Recess taken.)

8 ACTING CHAIRPERSON CAREY: Okay. I would --
9 we're back in session and would like to, with the
10 indulgence of the Board, revisit item 7 for -- 8, I'm
11 sorry -- for a moment.

12 Steve.

13 MR. SPEARS: Again, with the indulgence of the
14 Board, it occurred to me on my break that there may be a
15 situation where we have a sale of quite a number of
16 loans, some of which could be a discount, some at par.
17 I'm told by Bruce and reminded that in Denver when we
18 had some discussions about this with Fannie Mae about
19 how this would all come down, they generally just give a
20 price for the portfolio.

21 You're not really sure sometimes, but there
22 could be an investor who agrees to a loan-by-loan price.
23 They generally do that on the multifamily side, Carol,
24 but not on the single-family side. They just give you
25 one price.

1 I just want to clarify, ask for your thoughts,
2 if we do wind up with a net, you know, par or above
3 sale, it's okay to go ahead with one of those? That's a
4 question.

5 MR. SHINE: Where the pieces are at different
6 levels, some are at 101, some are at 98, and we averaged
7 it out at 100 or above?

8 MR. SPEARS: Yes.

9 MS. JACOBS: I think that we were talking about
10 transaction deals, not individual deals. And maybe in
11 my sentence I didn't say that.

12 MR. HUGHES: No, actually, the language that I
13 read anticipated that issue because it says
14 notwithstanding paragraph one above any sale of a pool
15 of loans.

16 MS. JACOBS: Yes.

17 MR. SPEARS: I knew we could count on you, Tom.

18 MS. JACOBS: That's why I asked for an expert.

19 ACTING CHAIRPERSON CAREY: Okay. Thank you.

20 --o0o--

21 **Item 7. Resolution 09-04, FY 2008/2009 CalHFA Operating**
22 **Budget**

23 ACTING CHAIRPERSON CAREY: With that we'll move
24 to item 7.

25 MR. IWATA: Hello, Chair and Board members.

1 I'd like to present Board Resolution 9.4, and
2 provided also in your handouts is pages 696-A, -B and -C
3 with the fiscal detail. Provided for your approval is a
4 proposal for a \$1,936,000 augmentation to the
5 \$4.6 million fiscal year 2008/2009 operating budget.

6 The current year budget is proposed to be
7 updated to reflect the baseline changes that were
8 incorporated in the preliminary fiscal year 2009 CalHFA
9 budget presented in the 2009 Governor's proposed budget.

10 In submitting the Agency's preliminary operating budget
11 to the Department of Finance for the 2009 Governor's
12 proposed budget, it was necessary to reflect the most
13 recent baseline changes in the current year, otherwise
14 the '9/10 operating budget would not be accurate for the
15 presentation to the Board in May.

16 The proposed midyear update to the fiscal year
17 2009/2010 operating budget reflects an increase of
18 4 percent over the current year's budget that was
19 approved by the Board on May 14th, 2008. At that time
20 the 2008/2009 operating budget approved by the Board
21 reflected a 1.07-percent increase over the approved
22 fiscal year 2007/2008 operating budget.

23 The proposed midyear update for the fiscal
24 2008/2009 operating budget includes a 2.4-percent
25 consumer price index adjustment that Department of

1 Finance projected last year for operating expenses and
2 equipment. That included areas like general expense,
3 communication, travel, training, information technology
4 and equipment. That all came out to approximately
5 \$91,000.

6 Also, an 8-percent increase in the formula of
7 estimated staff benefits of 30 percent to 38 percent due
8 to health premium and retirement increases. That came
9 up to 1,723,000.

10 Also, there was a lease cost adjustment for
11 agencies and offices in Sacramento. And based on the
12 lease agreements and the consumer price index charges
13 projected by Department of General Services, and this
14 came up to about \$122,000. And that was a -- the CPI
15 for the lease agreements came to -- that was a 4-percent
16 increase.

17 So in total we're asking for \$1,936,000 in
18 increase in operating expenses.

19 Also, for your information, in the current year,
20 the Agency received almost \$400 million anticipated from
21 counties for Mental Health Services Act housing
22 projects. Under the interagency agreement with the
23 Department of Mental Health, 1 percent of this funding
24 is allocated to the Agency for administrative costs.
25 These costs will be used to cover the costs associated

1 with staff assigned to work on the MHPA projects and
2 recent renovation of space in the Culver City office to
3 accommodate the staff. Based on available information,
4 no additional expenditure authority is anticipated at
5 this time.

6 Also, for your information, with the current
7 state of the economy and the housing market, the Agency
8 is utilizing more external legal services to assist with
9 major debt restructuring activities. Until more
10 information is available, no additional expenditure
11 authority is anticipated to be needed at this time.

12 So in summary, the proposed midyear update for
13 the 2008/2009 operating budget is based on the current
14 information and assumptions available to staff. At this
15 time we are not requesting any positions for the current
16 year, however, we may request additional positions for
17 the proposed fiscal year 2009/2010 operating budget.

18 So if there are any questions.

19 ACTING CHAIRPERSON CAREY: Ms. Jacobs.

20 MS. JACOBS: I have a couple questions and
21 concerns. On your increase in staff benefits here,
22 that's a lot more than 8 percent, that number.

23 MR. SPEARS: Right. And I think the
24 clarification is if you read that bullet, it's not an
25 8-percent increase in benefits, it is an increase in the

1 formula from 30 percent of salaries and wages to
2 38 percent salaries.

3 MS. JACOBS: Okay.

4 MR. SPEARS: So the percent increase is higher.

5 MS. JACOBS: Okay. Thank you for clarifying
6 that.

7 My other concern is here: You know, I think
8 this is the time to be making some hard choices, and I
9 don't think I'm comfortable approving a budget
10 projection that doesn't including potential layoffs, if
11 we're not lending. I think we have to look at some of
12 these alternatives.

13 I really don't think we can just say let's go
14 ahead with business as usual with just what the State is
15 saying are the increase you can have and, you know,
16 think about adding people in the next budget, I think
17 we're -- we're beyond that nice time in our lives where
18 we have to have some alternatives here that, you know --
19 shifting some of the remaining staff to helping with
20 REOs I understand, but I don't -- I really think from a
21 fiscal point of view we have to have some proposals to
22 look at potential staff reductions if we're not sure the
23 bond market is coming back.

24 ACTING CHAIRPERSON CAREY: Is the impact of the
25 furlough in here at all?

1 MR. IWATA: No, it's not.

2 MR. SPEARS: We struggled a little bit with how
3 to present the augmentation versus, you know, the
4 midyear how much have we spent of this budget, that sort
5 of thing. We decided to put it into two separate Board
6 agenda items. When we get to the financial review, we
7 have the debt restructuring discussion, a discussion of
8 our first quarter financials, and then a discussion of
9 the budget under that heading.

10 And in there we talk about the impact, which is,
11 I believe, just to give you a sneak peek, about \$800,000
12 for this current fiscal year, a reduction of about that
13 amount. So --

14 MR. IWATA: I think on this budget augmentation
15 for the budget, it's basically for the authority to
16 spend this amount, not that we're going to spend this
17 amount.

18 And in order to show a good budget, a sound
19 budget, we're starting with a baseline. We worked with
20 Department of Finance and ran our numbers through
21 Department of Finance, and they would review it and
22 provide suggestions on things that we may have missed.
23 And this is some of their suggestions, also working with
24 them.

25 And that will give us the authority to start the

1 following fiscal year with a clean slate with a good
2 baseline. And then Department of Finance also could see
3 what we're doing. However, even though we -- all our
4 information is not officially approved by the Department
5 of Finance, it is approved here, we want to show a clean
6 slate with a strong baseline.

7 MS. JACOBS: I mean, I understand what you're
8 saying and what you're doing, I'm just not supportive of
9 it. That's all.

10 ACTING CHAIRPERSON CAREY: Could I ask -- the
11 increase in staff benefits, is that imposed by the
12 broader State or is that --

13 MR. IWATA: Yeah. What happened was, my
14 understanding is when we initially went forward with our
15 budget and submitted it to Finance for review, they
16 looked at it and said 30 percent was low, that most
17 agencies with the State of California, what they're
18 recommending is about a 38-percent increase. I mean not
19 increase, but 38-percent staff benefit rate. So in
20 doing that, we recalculated our numbers.

21 And really, I looked at actuals. And looking at
22 the actuals to date on our staff benefit, it comes out
23 to about 35 percent.

24 ACTING CHAIRPERSON CAREY: Ms. Javits.

25 MS. JAVITS: I think, you know, Lynn raised a

1 very pointed question. I'm interested in hearing a
2 response. I mean, I think it's kind of common sense,
3 you know. We're doing much less business. We don't
4 really know what '09 is going to bring. So I'd just be
5 interested in your perspective. I imagine you've had
6 conversations about this. What's your perspective?

7 MR. SPEARS: We have. And, of course, we're
8 just beginning the process of planning for next year, so
9 the -- my three-year history here, my understanding is
10 that we provide this update in January on everything,
11 the business plan, where we are with the budget,
12 everything.

13 The staff, we're in the process of scheduling an
14 off-site planning session to put together a business
15 plan and a budget to present to the Board in March. The
16 business plan will be an updated five-year business
17 plan. So that's where I would think that we would
18 have -- present a plan for whatever level of business
19 volume that we're going to have.

20 The question is do we -- do we downsize in the
21 short period time when we think the bond market is out
22 of commission but will be coming back and then try to go
23 back under the civil service system and rehire and get
24 these people from wherever they went in the meantime, or
25 do we reallocate and have them work on other -- other

1 items? And you'll see when you, again, talk about the
2 things that we're doing to get prepared for the return
3 of the bond market, I think we have a lot of people at
4 work.

5 But we haven't gone through that, where are we
6 going to be on the other side of this. Are we going to
7 experience a permanent, you know, downsizing of the
8 volume of business because of the way the bond market is
9 going to be on the other side of this and will that
10 necessitate a reduction in workforce?

11 I would resist the idea that we need to downsize
12 just because the State's having problems, you know, the
13 economy is the way it is, because we haven't always
14 tracked that. But we do need to look at it, and we're
15 just beginning that process.

16 MS. JAVITS: Just one more thought on that. I
17 mean, I think the question that was raised is less about
18 the general state of the economy. I mean, it's really
19 more pointed than that.

20 And I think that's -- at least that's what I
21 would be looking for when you come back in March is -- I
22 mean, the Agency is doing business at a very different
23 level than it did some months ago, so we're staffed up
24 to do business, a certain kind of business, and a
25 certain volume of business, and we're not doing that

1 volume of business. I mean, that's the result of the
2 economy, it's not just, you know, gee, the economy is
3 bad, we should downsize.

4 So, I mean, I certainly respect the thinking
5 that you're talking about, you know, do you stay staffed
6 up, where are we going to be on the other side of this,
7 what's the timing, what's the pacing? I mean, I think
8 we have to look to you for some thoughts about that, but
9 I think your Board is raising that pointed question. If
10 the volume of business is down even for a year, you
11 know, we'd like to hear you be really thoughtful about
12 what it means in terms of the staff.

13 MR. SPEARS: There are a number of thoughts
14 about what our business model will look like on other
15 side. You heard some of that this morning. You heard
16 us talk about conduit financing.

17 If you look at conduit financing organizations,
18 CSCDA is one of the conduit financing localities,
19 they're much slimmer organizations, and their overhead
20 is able to be covered by the fee that you get, the
21 one-time fee that you get with the conduit financing.
22 We are set up as a portfolio lender. If that business
23 model changes, we need to look seriously at how we're
24 organized, how we're staffed and the whole thing.

25 But even if we're going to remain a portfolio

1 lender and it's roughly the same business model as we
2 had had before but we're going to have substantially
3 lower volume because of any number of things, the way
4 the bond market comes back or doesn't come back, then we
5 have to take a very hard look specifically at staffing
6 levels, workload levels. And that's what we're going to
7 be doing at this off-site in the planning process
8 between now and March.

9 ACTING CHAIRPERSON CAREY: Ms. Redway, did you
10 have a comment?

11 MS. REDWAY: Well, I was just -- I think that
12 Lynn raised a valid point. I wonder about timing for
13 staff. I understand what you're doing here is a midyear
14 course adjustment or reporting on just the budget that
15 we approved last year, and they are saying changes.

16 I just wondered if maybe the Board would want to
17 ask Steve to report back to the Board at the next
18 meeting on any thinking that you have in regards to
19 changing business plans, possible layoffs, how the
20 furlough is working and also vacancies and how many
21 you're keeping open toward reducing budget costs, cost
22 savings, just to look at all of those things more
23 comprehensively, rather than layoffs, which I'm not sure
24 is always the best solution.

25 MR. SPEARS: On the next two agenda items from

1 here, I guess, we have one an update on staff -- current
2 staffing levels, current vacancies and that sort of
3 thing, but the March presentation is that plan.

4 And this is not -- although it's quite an
5 increase, it is mainly due to the staff benefits formula
6 number, not a request for increase in staffing.

7 But I understand Lynn's question and that is are
8 we talking about staffing reductions, are we talking
9 about downsizing? And, you know, we just ceased lending
10 because what we believe is a temporary PMIB decision
11 less than a month ago. So we're going to be talking
12 about that when we get together at the off-site.

13 ACTING CHAIRPERSON CAREY: If I understand it,
14 Steve, the change in the budget will not affect spending
15 levels as they've been so far. The change in budget
16 reflects spending levels as they have been up to this
17 point in the fiscal year. Is that correct?

18 MR. SPEARS: Yes. And, of course, it goes back
19 to the past practice of the Agency. Because this budget
20 cycle is off from the -- from the standard Governor's
21 presentation of the budget and the debate. We're not --
22 we're not associated with that, but we do submit a
23 budget to Finance for review.

24 The prior practice was to submit what the Board
25 approved in May and just drop it in. Legislative staff

1 and Legislative committee members objected to that a
2 year and a half ago or so and said, "We want you to give
3 us the real-time, right up-to-date."

4 So when -- we did that last year. We came back
5 this year, worked with Finance and put into the
6 Governor's process a budget for their review that is
7 up-to-date. And we discovered that our formula was off,
8 and the CPI index was inadvertently omitted back in May,
9 and there was a slight rent adjustment that needed to be
10 made.

11 So what we're doing is getting the baseline
12 correct based on formulas that are used by Finance.

13 ACTING CHAIRPERSON CAREY: Ms. Gay.

14 MS. GAY: Just a quick one since I look around
15 and I still think I'm the newest Board member for today.

16 Since I've been here, we've been making
17 adjustments, and I think this is the last of the big
18 dogs we got to look at. And it's a little disturbing
19 for me, being newer, that we haven't talked about this
20 before. And so I know Lynn's putting up a tough
21 question. But it should be, I think, in a much broader
22 context than just layoffs, you know, and just bond
23 financing. It's what does all of it mean in the context
24 of how we do business to serve the citizens of
25 California?

1 And I guess sitting here listening to all of it,
2 I'm just chewing on how I would think, you know, if I
3 was sitting in your chair and saying, "How do I redeploy
4 all my team to be the most effective?" And while the
5 loan activity's way down, it's been down, you know. So
6 it's how do we look ahead because being geared up to do
7 work for the future, well, what is the future? You
8 know, it's really that question.

9 And I think the REO stuff that we struggle with
10 a little bit probably will be a whole lot more in the
11 future, so do we have the best staff for that, do we
12 have the best systems?

13 So we know it's not an easy answer, but I think
14 I would be remiss if I didn't say I don't want to
15 approve any kind of increase, whether it's a formula
16 adjustment or not, if it's not tied to the context of
17 this report. And that's kind of where I'm sitting.
18 Because otherwise it looks like we're kind of putting
19 money in even though we know there's, you know, this
20 other side of it.

21 ACTING CHAIRPERSON CAREY: Ms. Galante.

22 MS. GALANTE: I appreciate what everyone is
23 saying, and I agree we need to look at this more
24 holistically and not just layoffs, but all the
25 questions.

1 But I still don't know that I got an answer to
2 the question on this increase in staff benefits. I
3 understand that you got a formula from Department of
4 Finance. Is it required that we use that formula when,
5 in fact, you're saying we're running at less than that
6 formula?

7 MR. IWATA: Well, Department of Finance usually
8 comes up with a statewide formula for -- that usually
9 all state agencies use.

10 MS. GALANTE: So you're required to use it?

11 MR. IWATA: Right. Well, I wouldn't say
12 required to use it, but that's their recommendation that
13 they provide a baseline amount to use.

14 Now, based on actual uses of staff benefits, we
15 can go to Department of Finance and say our rate is
16 higher and show past expenditures what it is. Because a
17 lot of that has to do with how much benefits a person
18 claims, if they have children, you know. So the rates
19 may go up; the rates may go down. And we justify that
20 to Department of Finance and other state agencies.

21 So here we were looking at it and see in the
22 past it was around 30 percent. But looking at current
23 expenditures and what's been happening with the market
24 and health benefits and retirement benefits, it's all
25 been going up, but we stayed at the 30-percent rate.

1 So I'm looking at that, and then I just looked
2 at the last fiscals from -- I think the end of November
3 I was looking at and then our staff benefit rate overall
4 looked at around 35 percent. So it was really a little
5 bit under 38, but over 30 percent.

6 ACTING CHAIRPERSON CAREY: Ms. Peters.

7 MS. PETERS: Thank you.

8 Looking forward to March when we have this
9 comprehensive discussion, which I agree needs to be
10 done, I'd like to see staff give us a breakdown of how
11 many employees we had when we approved our last business
12 plan and what we anticipated them doing at that time
13 versus how they have been reshuffled to the REO or other
14 areas dealing with the immediate crisis so we get an
15 idea of who's doing what now, in addition to the
16 long-term plan of when we come out of this, you know,
17 we're delivering loans directly to Fannie Mae, does that
18 take less work than what we would normally do if we're
19 doing, you know, any of the things we've been talking
20 about doing, how that would adjust.

21 And then the other question is is there any
22 reason for the Board to act on this today? Can we defer
23 this item to March?

24 MR. SPEARS: I know of no reason why it has to
25 be done today. It is -- I talked to Tom before this

1 Board meeting about what is exactly the nature -- it's
2 not like the state budget where the Governor signs it
3 into law, and if you spend more or less on any
4 particular line item, you have to move money around to
5 pay for different things. It is a general spending
6 authority by the Board, you know, passed in May
7 traditionally for the coming year, adjusted periodically
8 as necessary.

9 From what I can gather, it's more of an
10 informational issue as opposed to just dollar for dollar
11 spending authority. That's my understanding.

12 MS. REDWAY: So just for clarification on my
13 part, if we didn't act on it today your -- the Board's
14 approved spending authority would be that that we gave
15 you last summer.

16 MR. SPEARS: Last May.

17 MS. REDWAY: Last May.

18 ACTING CHAIRPERSON CAREY: And yet the -- the
19 expenditures for staff benefits then would exceed the
20 budget as approved last year probably.

21 MR. SPEARS: That's possible.

22 ACTING CHAIRPERSON CAREY: Because they're at --

23 MS. GALANTE: 35.

24 ACTING CHAIRPERSON CAREY: Right.

25 MR. SPEARS: We're going to get invoiced from

1 the Department of Finance at a certain amount, and
2 they're saying you should set aside this amount based on
3 your salary and wages. If an invoice comes in at
4 38 percent and we're at 30, yes.

5 MR. IWATA: But if you look at the overall, our
6 expenditures versus what's been authorized for us to
7 spend, we'll be way under.

8 MS. REDWAY: That's what's kind of hard because
9 that's being presented at a different point.

10 ACTING CHAIRPERSON CAREY: That's my point. To
11 go back, to me this is largely symbolic, but
12 symbolically it's not very comfortable because it
13 appears to be out of context with the reality of the
14 time, and yet, you know, certainly the Board is very
15 clearly saying it's time to get -- to be very real and
16 intentional on the business level, and that will happen
17 in March. So it's the Board's pleasure.

18 MS. JACOBS: I can -- I really would be more
19 comfortable if this was deferred for a lot of reasons,
20 number one being this does not reflect the furlough, and
21 by March we will know whether the furlough has gone into
22 effect or not. And I would -- you know, I would really
23 like to see -- if we're going to adjust, I'd like to see
24 adjustments all through the budget, not just on the
25 expenditure side. It's not just on raising limits. I

1 mean if some maybe could be lowered.

2 ACTING CHAIRPERSON CAREY: And are we clear then
3 that deferring this does not create an obstacle?

4 MR. IWATA: No.

5 ACTING CHAIRPERSON CAREY: Do we need a motion
6 to defer it then?

7 MR. HUGHES: It doesn't raise any legal issue
8 that I'm aware of. I think what you're seeing here is
9 exactly what Steve said, the increased role of the
10 Department of Finance as a reaction to the Senate Budget
11 Committee and the Legislative Analyst comments it wanted
12 a more proactive role there.

13 But I am, you know -- it's the Board's decision.

14 ACTING CHAIRPERSON CAREY: Well, then we'll
15 simply see if there's a motion to approve, and if
16 there's not, we'll continue on.

17 --o0o--

18 **Item 9. Resolution 09-06, Implementation of Executive**
19 **Order S-16-08 for exempt employees**

20 ACTING CHAIRPERSON CAREY: Seeing none, we will
21 move on to item 9.

22 MR. SPEARS: This item, Mr. Chairman, relates
23 back to the furlough issue. And Tom can chime in at
24 point, but since the Board does control the budget,
25 since the Board does control the salary setting of

1 exempt appointees, we felt that it was necessary to
2 bring to the Board a resolution to allow the staff to
3 implement the furlough program as presented by DPA,
4 which, again, would involve two-day-a-month furloughs
5 implemented by closing -- at this point closing offices
6 the first and third Fridays of the month. It's just
7 simply recognition that the Board has control, again,
8 over the budget. The same process, the same
9 salary-setting process. We're doing this voluntarily.

10 MS. GAY: Can I ask a small technical question?
11 I thought I heard you mention earlier that it's two days
12 off a month, offices close.

13 MR. SPEARS: Yes.

14 MS. GAY: Do they give you vacation time back?
15 I know in prior years the State did things like that.
16 Or is this just clean, that's it, everybody takes a cut?

17 MR. SPEARS: Under this plan everybody works two
18 days less a month with the equivalent pay cut.

19 And the office closures solves an issue for
20 exempt managers, supervisors, appointees because you're
21 going to have to come up with an equivalent pay
22 reduction. And if you just say you're not working, then
23 it turns out to be a 9.23-percent reduction according to
24 the DPA letter for exempt employees.

25 ACTING CHAIRPERSON CAREY: If I understand, in

1 situations where people do have to work under one of the
2 exceptions, they will in the future have time off
3 without pay.

4 MR. SPEARS: That's right. They're technically
5 working that day for pay and taking a day off within the
6 next 30 days.

7 ACTING CHAIRPERSON CAREY: Okay. So -- yes.

8 MS. REDWAY: The Treasurer is actually of the
9 opinion that the Governor does not have the authority
10 through an executive order to impose furloughs on civil
11 servants or exempts, and that isn't going to be decided
12 until the court hearings next week which Steve referred
13 to. So I'm going to vote no on this resolution.

14 ACTING CHAIRPERSON CAREY: Thank you.

15 MS. JACOBS: Okay. Let's give this a shot.
16 I'll move approval of --

17 MS. PETERS: Second.

18 MS. JACOBS: Does it have a number? --
19 Resolution 09-06.

20 MS. PETERS: You're putting us really on the
21 spot.

22 MS. JACOBS: Well, you know.

23 ACTING CHAIRPERSON CAREY: Well, let's see, MHP,
24 tax credits.

25 MS. JACOBS: No, we are never retaliatory at

1 HCD. Never.

2 ACTING CHAIRPERSON CAREY: Okay. We have a
3 motion and second. Any further discussion?

4 MS. JAVITS: Just a point of information.

5 ACTING CHAIRPERSON CAREY: Yes. This is the
6 further discussion. Thank you.

7 MS. JAVITS: Further discussion. So there's
8 nothing that says anything here about the court deciding
9 if this is legitimate. Does that mean --

10 MR. HUGHES: Just a little bit of the background
11 on this, again, we thought about this very carefully.
12 When we wrote this up, it had been before a plan had
13 been announced. And the fact that state offices will be
14 closed two days a month makes it kind of easy, but
15 nobody knows whether that will really survive the court
16 challenge or not.

17 What we think we need here is, to be honest, the
18 practical ability to implement a plan that we think we
19 need to comply with and yet reserve the Board's
20 statutory authority over salary setting for exempts.
21 For example, if the plan, the furlough plan, is
22 overturned by the courts and the ultimate decision is
23 that exempt employees will take a 10-percent salary cut,
24 the statutes provide that the Board set the salaries of
25 the exempts.

1 So it becomes very problematic in terms of we
2 want to make sure that when the exempts take that salary
3 cut, that's both been legally authorized and that we've
4 protected essentially the Board's authority in this area
5 by asking for that permission.

6 MS. GALANTE: I'm sorry.

7 ACTING CHAIRPERSON CAREY: Yes, Ms. Galante.

8 MS. GALANTE: I think I'm more confused. I
9 thought this was a very simple thing, and, you know,
10 given what I've just heard, it doesn't feel so simple.
11 You know, we're talking about coming back in March with
12 a plan for CalHFA with respect to staffing and, you
13 know -- or other -- other measures to ensure that, you
14 know, we stay fiscally sound.

15 And so I guess I'm not quite sure. By
16 instituting this, we're saying we would comply with
17 shutting offices two days a week -- I mean two days a
18 month, which may or may not be for CalHFA the best way
19 to save money. There are other ways to save money.
20 Because, you know, we're not a big user of consumer --
21 we're not DMV where people are coming in and using the
22 offices. So, you know, that may not be the most
23 cost-effective way for CalHFA to attack its budget
24 issues, whatever they are.

25 So, again, I'm just wondering do we need to do

1 this now? Can we have our -- can we have our
2 conversation about CalHFA's staffing structure and
3 business plan?

4 ACTING CHAIRPERSON CAREY: Ms. Peters
5 representing the Secretary.

6 MS. PETERS: Yes. It would be our position that
7 we need to address this now because the plan that came
8 out subsequent to this book from DPA institutes the
9 furloughs starting February 6th, so that would be
10 between today and our next meeting.

11 The Board, in my opinion, should either vote up
12 or down on it before then so that we're in track with
13 the rest of the State, not precluding any changes that
14 we may subsequently make at the March meeting, with the
15 caveat that there are court hearings next week and this
16 may be all moot and might very likely be since the
17 Controller's Office has said that he's not going to
18 implement and he's suing the Governor.

19 ACTING CHAIRPERSON CAREY: There is a line we
20 should look at. It does say that we authorize the
21 executive director, we don't direct the executive
22 director. It does give -- it gives the authority
23 without necessarily saying this is what has to happen.

24 MR. HUGHES: I would add that I do think it's
25 important legally that we have some clear resolution at

1 this time from the Board because we very likely -- after
2 February 1st we could be in a position where as a
3 practical matter we need to implement this and yet it
4 enters into an area over which the Board has authority.
5 I think it would certainly on a very practical level be
6 helpful if the Board and the greater plan were in
7 harmony on this issue because we'll be put in an
8 exceptionally difficult situation if it's not.

9 MS. REDWAY: You know, just to be helpful to
10 what I just said I was voting against, as I understand
11 this, for represented and unrepresented civil servants
12 who work for CalHFA, if the courts uphold the executive
13 order, it will take effect. So your resolution only is
14 applying to the exempt employees that would not be under
15 the order were it to be upheld by the courts.

16 So this resolution is an attempt, I believe, to
17 give staff the authority that if the order is upheld --
18 and the 90 percent or 95 percent of the employees at
19 CalHFA are subject to that order -- the exempt
20 employees -- the Board would direct that exempt
21 employees be under the same order or the same governing
22 rules that's implemented. Is that accurate?

23 MR. SPEARS: I believe that's accurate.

24 MR. HUGHES: This only addresses exempt
25 employees because the SB257 legislation essentially

1 moved that authority from the Department of Personnel
2 Administration to the CalHFA Board. As to the rank and
3 file and supervisory employees, this is not an issue.
4 DPA continues to have all the authority. This only
5 relates to the specific positions over which the Board
6 has salary-setting authority, which are essentially ten,
7 I believe, exempts.

8 MS. GALANTE: So that's really helpful to me
9 because if the order is upheld, then I don't think --
10 you know, just on the facts of the situation I, you
11 know, at least as I understand it right now and I'm open
12 to further conversation, I don't think I would want to
13 see a situation where we're imposing or the State's
14 imposing something on the rank and file and then the
15 exempt employees don't have to also, you know, take --
16 take the hit, so to speak. So that makes me feel, if
17 I'm understanding that right, better about voting for
18 it.

19 MR. HUGHES: I think the contingency we're
20 trying to cover here is exactly the opposite of that,
21 that the rank and file may not have to take it and the
22 exempts do. And since we will likely -- the last time
23 this happened, the state exempts were requested -- were
24 asked to volunteer for a pay cut, and I assume that
25 would be the case again. I think the exempts would like

1 to feel that what we're doing is consistent with the
2 Board's authority to set our salaries.

3 ACTING CHAIRPERSON CAREY: Did that help?

4 MS. GALANTE: No. I'm going to say that went
5 right over my head.

6 MR. HUGHES: In simple English, the Board has
7 authority to set our salaries.

8 MS. PETERS: On the exempts.

9 MR. HUGHES: The administration -- on the
10 exempts, correct. That authority was taken away from
11 the Department of Personnel Administration. If
12 essentially an order is that DPA is going to reduce the
13 exempts' salaries by 10-percent, that treads on the
14 authority of the Board, and we want to make sure that
15 the Board has issued us authority consistent with that
16 order to avoid a Constitutional crisis, if you will, of
17 having us be in a position of not being able to enact,
18 then, an order which we think we have to comply with.

19 MS. JACOBS: Can I call the question, or do you
20 want to talk about it a little longer?

21 ACTING CHAIRPERSON CAREY: Please.

22 MS. JACOBS: I'm calling the question then.

23 ACTING CHAIRPERSON CAREY: Okay. We are ready.

24 MS. JACOBS: There's a motion and a second.

25 ACTING CHAIRPERSON CAREY: Oh, there is. I'm

1 MR. SPEARS: And I will shift to the other side
2 of the desk.

3 Technical difficulties. If you would follow
4 along in your books, you have slides. We don't have it
5 for the overhead.

6 But what I thought I'd do is invite members of
7 the senior team to come up one at a time in case you
8 have questions or we need some clarification.

9 Probably Gary and Chuck, if you would join me
10 for this first part.

11 MR. BRAUNSTEIN: Together or individually?

12 MR. SPEARS: I know how difficult that might be.
13 Come on up, Chuck.

14 So thank you, Board members. I think we've set
15 the stage for what you're going to see here. You're
16 going to see a lot of below business plan reports and
17 that sort of thing.

18 The first they have -- the first two pages that
19 you have in your slide is what exactly appears in the
20 business plan that was approved last May finally and
21 what we'll be updating for you in March as a proposal
22 and then adopted in May of 2009 for the next five years.

23 So we'll go right to the homeownership program.
24 And slide 5 is homeownership program's production, the
25 highlights. The top line there, the blue line, of

1 course is what we had planned on doing total for the
2 year, 1.2 billion. Again, this is slide number five.

3 And these slides are in the binder already.

4 MS. RICHARDSON: We don't have them. There's
5 nothing on the screen. I'm sorry, is the screen not
6 working?

7 MR. SPEARS: No.

8 MS. RICHARDSON: I didn't hear that.

9 MR. SPEARS: So obviously the cumulative current
10 purchases, the red line, is below plan.

11 And then if you'll notice the monthly gross
12 reservations, of course, dropped to zero, except for the
13 REO programs that we have. And that's -- that's where
14 we stand.

15 If the bond market does not come back, if the
16 PMIB warehouse line of credit does not open back up to
17 us, those lines will flat line, and that's where we'll
18 end up for the year because of those actions.

19 And here again I think to be fair with the Board
20 members about when the PMIB will reverse their decision
21 and come back, I believe there are two factors. One is
22 that there is a resolution to the state budget and the
23 State's cash situation, but not only that, a return of
24 the bond market.

25 Because if you can imagine from the PMIB's point

1 of view, they would be reluctant to open those lines of
2 credit back up to folks like us who do not have access
3 to a take-out strategy through the bond market. So what
4 we've been hearing is that those two things both have to
5 happen. So here again, that could be late summer. It
6 could be the fall, down the road.

7 So my anticipation is that -- that this -- this
8 red line that we see here will drift upwards as the
9 pipeline finalizes. A few of these loans that are in
10 the pipeline will fall out. We'll have a few more
11 purchases as we go down the road. That's what Bruce was
12 talking about, using a portion of our nest egg to honor
13 the pipeline that Ms. Gay talked about. And then that
14 red line will straighten out and finish up the year like
15 that.

16 Any questions on that?

17 MS. GALANTE: So you're saying the flat lining
18 would be all due to the pooled investment board decision
19 and the bond market as opposed to -- I mean these
20 earlier -- it started back in July '08 before the world
21 fell apart in October. I'm just trying to understand
22 without the state situation, just the, you know, rest of
23 the mortgage world, you know, could you predict what the
24 loan volume would be, you know, if we solved the state
25 budget crisis and the bond market was, you know --

1 relatively quickly followed suit for California. You're
2 just out there with -- you're not different than New
3 Jersey now.

4 MR. SPEARS: A little difficult to answer, but
5 if you see this second data point, that was September.
6 Remember, this red line are loans that were reserved
7 sometime before that, and they're just wrapping up.
8 They finalize, they qualify, they get the happy news
9 that they're going to get a CalHFA loan, and then we
10 purchase it, so it's a ways down the road.

11 But then after that data point, there's a
12 significant fall-off, and that's when we restricted the
13 new reservations as a result of Lehman's bankruptcy and
14 the real crash of the bond market. And then, of course,
15 it begins to really flatten out after that.

16 MR. BRAUNSTEIN: The only thing we may want to
17 add is that future projections on new reservations could
18 also be impacted by the fact of us rolling out the flow
19 business model that you've heard in the past of us
20 originating new reservations and selling those loans
21 directly to Fannie Mae under that -- under that business
22 model. I think that was brought up to the Board a
23 couple of times in prior meetings, and it may be
24 included in this Board meeting.

25 So the flat line would be if the bond market

1 doesn't come back but it would be an increase in volume,
2 and we're just now working at what projections would be
3 based off of our Moody's rating, what the risk would be
4 in rolling out the flow business model and then how does
5 that impact our mortgage insurance volume cap for fiscal
6 year '08 and '09, which is around 300 million.

7 So if we were to just make an assumption that
8 the bond market is staying flat, we don't have access to
9 it, and we roll out a flow business model, which allows
10 us to originate new conventional single-family business
11 and flow it directly to Fannie Mae for delivery and a
12 cash gain on sale, then there will be about \$300 million
13 of projected revenue for the calendar year '09. Just
14 using conventional restrictions on our mortgage
15 insurance allocation, about 300 million.

16 ACTING CHAIRPERSON CAREY: And I assume that the
17 decline in market mortgage rates makes it even harder.
18 The bond market has to come back even farther --

19 MR. SPEARS: Right.

20 ACTING CHAIRPERSON CAREY: -- in order to make
21 it work.

22 MR. BRAUNSTEIN: However, though, the flow
23 business model has us going directly to Fannie Mae, so
24 what interest rate we could offer today is very
25 competitive in today's market mortgage climate.

1 The -- the restriction to some of that is the
2 lack of our downpayment assistance, which obviously
3 draws a lot of our CalHFA type of borrowers to us, but
4 we can be competitive on an interest rate with the rest
5 of the market. And the flow program business model does
6 allow for a higher loan to value opportunity, which most
7 of our borrowers seek and use CalHFA, as well as the
8 interest rate being reasonably competitive.

9 MS. GAY: I was going to just weigh in right
10 there, that it's then a question of positioning with the
11 Agency. A candid comment. Agency to consumers, while a
12 lifeline at times, has over the years been an A to
13 A-plus borrower preferential. And so who is the
14 consumer as we look ahead? Is it a B paper borrower?
15 C paper? You know, or is it the cream of the crop
16 that's been waiting for a decade to buy at low prices?
17 And then who are the players that are out there
18 participating, or have they gone out of business?

19 So it's that kind of stuff for March that I
20 guess I'm your homeownership person. I think the world
21 is over as we knew it. And that doesn't mean business
22 is over, but we've got to think hard and long about what
23 our future caring to family looks like in the context of
24 a market that's no longer the same.

25 Our properties can't go back to what they were.

1 It was artificial, anyway. So it's how do we strive as
2 an Agency then to be, you know, competitive in that
3 environment and -- because what I'm seeing, you know, is
4 that a bunch of folks still can't play because there's
5 credit, there's savings, there's income, you know.
6 There's a limited subsidy and so forth. And I just --
7 my sense is that people are not being straight up about
8 that. They're not -- they're not looking at those very
9 hard edges that are out there.

10 And that our state's in crisis, that's not
11 coming back tomorrow. Programs like Cal Home, Lynn, you
12 know, the simple stuff is suspended.

13 So I'm just putting it on the table because I
14 think you've got a group who's really asking those
15 questions now. And it behooves us to get some pretty
16 hard answers or we're not going to serve well. That's
17 all I'm saying.

18 Because underwriting has changed. It's not
19 going to go back, thank God, to the mess we had before.
20 And so who is CalHFA in the middle of that? That's a
21 positioning issue.

22 So I just -- I want to bring that up because I
23 think we've got to change. And if we don't change, I
24 don't know what or who we are.

25 MR. BRAUNSTEIN: On the program, the flow

1 business model and the loan program piggybacks between
2 what we sell directly to Fannie Mae, what their
3 underwriting criteria is, and what our internal
4 underwriting criteria is as well as being conventionally
5 insured through the MI fund. So I think you heard last
6 Board meeting that we changed some of the underwriting
7 guidelines to have 3 percent to get in the game.

8 But the business model that we're proposing on
9 the flow to be able to still allow new originations for
10 CalHFA type of borrowers does allow for up to a
11 95-percent loan to value. From an underwriting
12 standpoint, it would still be 3 percent to get in the
13 game. Debt ratio, you know, it's still a reasonably
14 high debt ratio for those hard to qualify borrowers.

15 So we're still in a position to attract the type
16 of CalHFA borrowers we had in the past, other than those
17 that were coming to us strictly for downpayment
18 assistance, since we don't have the downpayment
19 assistance available. We're still offering a first
20 mortgage loan that has some value benefits outside of
21 the conventional world that may still attract and help
22 those in need of financing that would be more of a
23 CalHFA type of borrower.

24 But the FICO scores have increased so it is
25 still an A type of borrower. We're not playing in the B

1 or C or subprime world at all. The product model is
2 still a thirty -- 30-year fixed-rate mortgage, similar
3 to our old standard 30-year fixed. In this case it's
4 just not backed by bond financing. It's just cash on
5 delivery to Fannie Mae and the gain on sale and earning
6 the revenue on that, on that gain on sale.

7 ACTING CHAIRPERSON CAREY: Ms. Redway.

8 MS. REDWAY: Yeah, I just wanted to be sure I
9 understood this red line, Steve. If PMI -- if the State
10 passes a sound budget in the next month -- that's a big
11 if -- that is not subject to litigation and the bond
12 markets open back up again and I'm going to add a third
13 to that, which is it's my understanding that PMIA, even
14 if both of those two things were to happen, is in such
15 an illiquid position itself that, as you said, it could
16 take until late summer before they actually are able to
17 start to release loans again in any way similar to what
18 they were doing prior to this all happening.

19 So assuming best case the budget is passed and
20 the bond market is open but PMIA is unable to release
21 funds for some extended period regardless of that, what
22 happens to that red line? Does it flatten and go down?

23 Because that's the best case scenario. Putting
24 aside the flow business model, just putting that aside
25 for a second and just looking at our traditional model,

1 I kind of want to understand what's going to happen to
2 loans.

3 MR. SPEARS: Well, assuming that, when you say
4 the bond market comes back, the State can't go out and
5 fund the liquidity with the sale of revenue --

6 MS. REDWAY: Well, let me clarify because my
7 understanding is that even if the budget passed and
8 there was no litigation and we could go out to market,
9 the reality is for the State to go out for about a
10 billion at a time is untenable. There's only so much
11 you can borrow every quarter before you saturate the
12 market. So that's a reality. We're not going to have a
13 lot of even borrowed cash flow until later this year,
14 so. The State won't.

15 MR. SPEARS: That's -- without the flow
16 alternative, our dependence still is on the Pooled Money
17 Investment Board line of credit warehouse line, so.

18 MS. REDWAY: If that is not available to you,
19 even if all these things happen but the State just has
20 a -- there's a long line in front of you of people
21 looking for loans.

22 MR. SPEARS: Right.

23 MS. REDWAY: So you're probably not at the top
24 of it.

25 MR. SPEARS: Since this is a cumulative line,

1 this would drift upwards. As the pipeline works its way
2 out and we use internal funds to make these purchases
3 for the rest of the pipeline, it would drift upwards and
4 then go straight across. So it might drift upwards to
5 400 million, and we would wind up at the end of the year
6 with a cumulative purchases of 400 million. That's, you
7 know -- again, that's an estimate.

8 ACTING CHAIRPERSON CAREY: Strictly because of
9 what's in the pipeline already.

10 MR. SPEARS: Strictly because what we've already
11 done is clear the pipeline we've purchased for the year,
12 and what's in the pipeline will clear out and then
13 that's -- that would be -- that would be it for business
14 volume for this year.

15 ACTING CHAIRPERSON CAREY: But next year's chart
16 would begin at zero July 1, and that red line would not
17 move.

18 MR. SPEARS: That's assuming --

19 MR. SHINE: Absent anything else.

20 ACTING CHAIRPERSON CAREY: Absolutely.

21 MR. SPEARS: That's assuming that the pipeline
22 had completely cleared out that we would start down
23 there at zero and would be running along the bottom for
24 a while until that came back and we were back in
25 business, yes.

1 ACTING CHAIRPERSON CAREY: Ms. Jacobs.

2 MS. JACOBS: I want to piggyback a little bit on
3 what my colleague Ms. Gay said. She correctly
4 identified that we're in a different world than we were
5 before in pretty much everything. Now if only it would
6 work on some other areas.

7 The -- and you talked about the typical CalHFA
8 loan being up to 95 percent still an A borrower and so
9 on and so forth. I think I would be very happy if you
10 looked at other alternatives and explained to us why you
11 don't want to do them. In other words, don't just
12 assume we're going to continue to do things exactly the
13 way we have been in the past. If you look at other
14 alternatives in your off-site, then you can explain to
15 us why they don't work.

16 Because I think what we're seeing is, you know,
17 maybe we should be looking at B and C borrowers, and you
18 can say, well, no, there's some fiscal reasons we
19 shouldn't do that. But I don't think we should just
20 look at what we've done before and replicate it. I
21 think if you could look at some other, you know,
22 alternatives and then if you could give us pros and
23 cons, that would be real helpful.

24 MR. BRAUNSTEIN: From a business model,
25 Ms. Jacobs, it is quite different from a business model

1 from the way the Agency has conducted business before
2 using bonds. The flow business model is purely a
3 mortgage banking secondary market approach to business.
4 And its restriction or common ground to what we've done
5 in the past is really just the opportunity of a higher
6 loan to value and the type of FICO underwriting
7 guidelines.

8 Because most of our business is above the
9 90 percent that needs to have conventional mortgage
10 insurance to cover that higher loan to value, some of
11 what we do from an underwriting standpoint -- and then
12 Chuck will, I'm sure, address this as well -- is
13 impacted by, you know, Genworth and our mortgage
14 insurance insurer or our mortgage insurance and our GAP
15 coverage that will restrict some of the FICO guidelines
16 that we place on the type of qualified borrowers that we
17 can attract such as FICO scores have raised from now 620
18 to a high of 680, debt ratios, and then available, you
19 know, loan to values.

20 Just some of what we're doing going forward may
21 match similar to what we've done in the past mainly just
22 because of some of the mortgage insurance restrictions
23 that we have to adhere to. Some other opportunities
24 may --

25 MS. JACOBS: I do understand that, but we have

1 one Board member and another Board member saying, gee,
2 what if we helped out these other borrowers, could we do
3 that? And so if you can look at that and say, well,
4 we'd like to do that but we can't for the following
5 reasons or --

6 MS. GAY: Or can we look --

7 MS. JACOBS: -- or is there another new product
8 that, you know, you invented on February 14th, on
9 Valentine's Day, that could work, you know. In other
10 words, that's -- I think that's what we're getting at.

11 MR. SPEARS: Right.

12 MS. JACOBS: I understand the limitations of the
13 product you're talking about, but since you are going to
14 really be doing brainstorming on our behalf, we'd just
15 like you to look at some other alternatives.

16 MR. SPEARS: It's prebrainstorming before we all
17 brainstorm together in March.

18 MS. JACOBS: Yes.

19 MR. SPEARS: It's prebrainstorming, but I
20 understand what you mean. It's a different world. We
21 don't even know what this world looks like yet. We
22 could actually form part of the world for ourselves, if
23 we wanted to. It's time to take a look at that and take
24 a very hard look and take a thoughtful approach to it.
25 And if there are reasons at this point in our life of,

1 you know, cleaning up some things and restructuring our
2 balance sheet that we can't do that but we could do it
3 later on, we'll let you know what those things are.

4 MS. JACOBS: Great. Thank you.

5 ACTING CHAIRPERSON CAREY: Ms. Peters and then
6 Ms. Redway.

7 MS. PETERS: I'm echoing the comments of both
8 Ms. Jacobs and Ms. Gay. I think we would like to hear a
9 full exposition of who our customers are and what our
10 value-add is. I think it would be very helpful at your
11 brainstorming session to analyze, you know, certainly
12 the short-term is crisis survival, live to lend another
13 day. CalHFA is an integral institution in the State of
14 California for housing, so we need live to lend another
15 day.

16 But in the long term, I don't -- I personally
17 would not like to see and I don't think the
18 Administration would like to see us become another
19 lender. We're not in the business to just barely
20 compete with the retail market. We're -- we have, you
21 know, our fiduciary responsibilities as a bank which
22 require strong underwriting and responsibility to our
23 bondholders and everything a normal bank would do, but
24 we, in my opinion, need to really give some serious
25 thought to our public purpose. Where is our value add?

1 Where can we serve and what products can we offer that
2 the lender down the street can't?

3 . And if our value add is just the tax-exempt
4 bonds, maybe that's all the value-add is at this point,
5 but in the future I think in our long-term planning we
6 need to be able to articulate where we diverge from
7 private lenders and how we're going to be a leader in
8 the brave new world.

9 ACTING CHAIRPERSON CAREY: Ms. Redway and then
10 Ms. Javits.

11 MS. REDWAY: So I'm sorry I'm going to go back
12 to my prior -- I had one more question. I agree with
13 everything that's been said, by the way, and I'm trying
14 to figure out if you could provide -- I guess the
15 question is are there alternatives to borrowing from
16 PMIA that we should be considering? Are there legal
17 barriers to that?

18 But in other words, if the bond market opens
19 again and CalHFA is able to go to market but PMIA is not
20 able to provide a loan, are we exploring alternative
21 ways of providing cash to the organization so that we
22 can make that red line go back up to the blue line? And
23 I don't know that you have an answer. You don't have to
24 have an answer today. I think it's something we want to
25 look at.

1 MR. SPEARS: First, I apologize for missing your
2 point.

3 MS. REDWAY: Well, no, that wasn't -- I didn't
4 get to ask that. That was going to be my second
5 question.

6 MR. SPEARS: Oh, okay. I mean, I can let
7 Bruce --

8 MR. GILBERTSON: Just a couple of quick
9 observations, I think.

10 Certainly in today's market credit is very
11 tight, so to find another warehouse lender would be a
12 challenge. I think if the bond market came back in a
13 robust way and we had pricing, we could structure
14 financing sufficient that we can deal with this without
15 a PMIB line.

16 It was very, very convenient for us to have that
17 warehouse facility, but we'd do more deals more
18 frequently. Smaller deals more frequently would be one
19 of the first things that we would consider. So we
20 shouldn't get too hung up on that. It was an extremely
21 administratively convenient tool for us to have over the
22 last dozen years or thereabouts.

23 ACTING CHAIRPERSON CAREY: Ms. Javits.

24 MS. JAVITS: I was going to hold this, but since
25 we're on this topic, just I confirm all the comments

1 that were made. Just also things that would be useful
2 to know in the light of trying to look at the public
3 purpose, you know, are we doing new units? Are we
4 rehabbing existing units? How many of each? What's the
5 level of income of the people who are prospective
6 homeowners or multifamily renters that we're trying to
7 serve?

8 And then I've expressed this, a little bit of
9 frustration, before and we tend to look at numbers like
10 we're going to spend so much money on this, we're going
11 to spend so much money on that, and we tend not to look
12 at how many people are we going to get into the unit of
13 housing. Where do they live? What are their
14 characteristics?

15 So just speaking to the public purpose, I would
16 really urge us to get there. And I think there's a lot
17 of ways to look at the value-add question, a number of
18 different ways, including cost per person to serve
19 those.

20 Thank you.

21 ACTING CHAIRPERSON CAREY: Ms. Galante.

22 MS. GALANTE: And I apologize for piling on
23 here, but I think as someone has recently made the
24 comment, you know, never waste a crisis, and I really
25 think that's partly what we're trying to say here. This

1 may be an opportunity to really rethink what CalHFA's,
2 you know, mission is in this new world, particularly
3 around single-family mortgage financing.

4 And some of you know, because I've brought it to
5 your attention, that I know the California home builders
6 would love to see CalHFA play a much broader role in the
7 mortgage finance system moving forward, for example,
8 than we are today.

9 And I don't know whether that's, you know,
10 legally feasible, technically feasible or even
11 advisable, but I think it is time to, you know, open up
12 the conversation. What are the legal restrictions about
13 what, you know, CalHFA, the kinds of mortgage financing
14 it can do? Where else can it get liquidity? Should we
15 be having the Governor pounding on Congress' door for
16 some of the stimulus money for something CalHFA might do
17 for borrowers in this state?

18 I'm not saying that's a good idea. I don't
19 know. But -- and I'm not sure, you know, we all here
20 are the experts to come up with those ideas, and maybe
21 you don't feel like you are, either, but I would
22 encourage us to then get some outside consulting brain
23 power maybe even on some of these issues. I mean, this
24 is big stuff.

25 I know we're, I think, each in our own way

1 trying to layer into this business planning process, but
2 I do think it's time, because we've got to reinvent
3 ourselves, you know, and be relevant moving forward.

4 ACTING CHAIRPERSON CAREY: Ms. Peters.

5 MS. PETERS: In addition to our own
6 brainstorming, does staff routinely have stakeholders
7 meetings where you sit down with your partners, lenders,
8 builders, homeowners, counselors, and get input on where
9 they'd love to see the Agency go?

10 MR. SPEARS: Yes.

11 MS. PETERS: Good. We'll get to hear about
12 that, too.

13 ACTING CHAIRPERSON CAREY: Ms. Gay.

14 MS. GAY: I'll wait for him.

15 MR. McMANUS: Thank you. Is this working?

16 MS. REDWAY: No, but we can hear you, though.

17 MR. McMANUS: Is this okay?

18 I just wanted to give the risk management
19 mortgage default risk situation here because I think
20 we're being a little humble about what our added
21 advantages are to the borrowers.

22 When we say we had 80 percent of our business at
23 the hundred percent loan to value with the 97 with no
24 borrower cash required, I mean, there was downpayment
25 assistance, that was our book in 2006. It was similar

1 in 2005. And in 2007 it tightened, so 80 percent of our
2 people have less than 5 percent down and many of them
3 zero. The average cash out of their pocket was one and
4 a half percent.

5 Those books are now running in the 20 percent to
6 30 percent foreclosure rate lifetime. They're not there
7 yet, but lifetime projection. We are at depression rate
8 scenarios on the 2005, '6 and '7 books.

9 In that environment, the credit enhancers -- and
10 Genworth is our reinsurer and a leader in that market
11 right now, they've been downgraded to A-plus. They were
12 the triple-A people. They only offer 10 percent down.
13 The private mortgage insurance requires 10 percent down.
14 We are an exception at the 5 percent down level. And we
15 got that exception because of our full underwriting,
16 full documentation, and went to the president of their
17 company.

18 And while we're nothing like what we were, we
19 didn't have to have any money down and we got all the
20 assistance at a 3 percent cash out of your pocket,
21 95 LTV. We are still cutting edge and the easiest
22 around.

23 Our FICO scores have gone to 680 if you're over
24 90, you know, up to 95, and really 700 to get the high
25 ratios we get of payments. So -- but we're still the

1 cutting edge.

2 So while we're not as pretty as we used to be,
3 we are still trying to reach that extra mile. And we
4 fight the rating agencies now on whether or not our book
5 will perform and we can maintain our rating, which is
6 critical to us raising bonds, getting the tax-exempt
7 interest and so forth.

8 So I don't think you have to say we're not
9 trying real hard to do our mission because we really are
10 stretching as far as we can and getting -- and still
11 getting the reinsurance we need in order to have the
12 credit enhancement to get the rating on the bonds and so
13 forth.

14 So we are trying to meet that mission, it's just
15 a different world when you've got housing prices down
16 40 percent in California. For anyone to want to play in
17 this market, they're going to require that we do
18 everything perfect and we maybe only service 300 million
19 a year instead of a billion-six. It's just that
20 environment. But it's a struggle, and it's not an easy
21 solution.

22 ACTING CHAIRPERSON CAREY: It's interesting.
23 What I'm hearing from a pretty engaged conversation here
24 is that the Board is very interested in understanding or
25 hearing the broader parameters of issues and engaging in

1 it, and it sounds like March will be a good discussion.

2 Ms. Gay.

3 MS. GAY: Yeah. I just -- thank you.

4 A couple of things for March, extra. Again,
5 back to perception and positioning. There's people and
6 property, marketing and money. It's just a simple box
7 we came up with. And what I'd say is on the portfolio
8 that's in delinquency, you may view it as cutting edge.
9 On the street CalHFA to a lot of people is still viewed
10 as not on the cutting edge.

11 So what I'm really driving toward is leadership
12 now. And being like Fannie Mae or B of A is not -- I
13 didn't come to this Board for that. I can talk to them
14 without you. And so I'm really pushing because there
15 are a whole lot of people who wanted to participate in
16 homeownership who are good solid borrowers that haven't
17 been able to play. And they may only have 1 percent
18 down, and their FICO score might be, you know, 650 for a
19 whole lot of reasons.

20 So the education component that we don't talk
21 about here, I have to put on the record, is something
22 that I think we need to look at. Also, partnerships and
23 how are we really aligning in the future with groups
24 that the State might already be supporting, the federal
25 government might already be supporting to make sure that

1 borrowers borrow better.

2 So it's looking for the consumer who fits and
3 being willing to target that consumer on a profile
4 basis, like you mentioned. I think that is a huge
5 issue. And I don't know what we've done because I
6 haven't been here, but I can assure you that there are
7 pockets of people that this Agency misses, and we can
8 change that. This is our time to change it.

9 So I just want to encourage the staff about
10 that. If there's ways that any of us -- I know I say
11 this for everyone, I think -- can be helpful, we want to
12 do that.

13 MR. SPEARS: I think that I hear a consensus.

14 ACTING CHAIRPERSON CAREY: All right. Let's
15 move --

16 MR. SPEARS: A clear direction.

17 ACTING CHAIRPERSON CAREY: Let's move on with
18 the presentation.

19 MR. SPEARS: I guess we're on slide No. 6, and
20 we can move through, but, again, what you see -- what
21 you saw in slide 5 is the loan production for the first
22 mortgages. The next few slides are about downpayment
23 assistance and subordinate loans.

24 The slides that you have there on page 6 is --
25 the goal is in the upper left hand where we were going

1 to do 50-percent HiCAP, 50-percent CHAP, what it's wound
2 up to be is about 75-percent HiCAP and 25-percent CHAP.
3 The percentages that you see on the pie chart on the
4 bottom right, those are percentage of the goal, so you
5 might want to jot that in so it's not confusing. We --
6 we did pass math class. We know what a pie chart is,
7 but those are percentages of goal.

8 The next page, slide 7, these are the general
9 obligation bond funded downpayment assistance programs
10 through Prop 46 and Prop 1C.

11 The important column that I just want to spend a
12 minute on are the recycled funds. Ms. Galante, those
13 are funds that the bonds have already been sold. We
14 have loaned that money out and it has come back and is
15 now on deposit, whether in a bank account or with the
16 PMIB. Those are our funds for use and cannot be taken
17 by, shall we say, any other state entities.

18 The worry, the concern, that I've had is that if
19 we get the flow project going, you know, again, that
20 will only work if we are able to offer downpayment
21 assistance. To offer downpayment assistance, that would
22 require internal funds. If we're using internal funds
23 that could be used for debt restructuring for
24 downpayment assistance, then we're at conflict with our
25 short-term and long-term goals.

1 These are funds that we believe could be
2 available for downpayment assistance if that -- if the
3 flow project gets going in a few weeks. That would be a
4 good resource to have.

5 On pages 8 and 9 --

6 MS. JACOBS: Can I ask?

7 MR. SPEARS: Yes.

8 MS. JACOBS: This is on page 7.

9 MR. SPEARS: Yes.

10 MS. JACOBS: I am perfectly aware and fine with
11 the footnote that we transferred the RDLP money to
12 CHDAP. I remember that we did that. However, what I
13 would like to ask you to do for me for the next meeting
14 is make sure that you can do that in view of the wording
15 of 1C, that there's nothing in the working of 1C that
16 requires that the money be in those specific programs.
17 If you could just affirm that for us, that would be
18 great.

19 MR. SPEARS: Will do.

20 I've just been handed a note. Apparently
21 legislation was passed that specifically provides that
22 authority.

23 MS. JACOBS: Okay. Maybe you could just get us
24 a copy of that for the next meeting.

25 MR. SPEARS: Okay. I'm making a little to-do

1 list here.

2 ACTING CHAIRPERSON CAREY: Little to-do list?

3 MR. SPEARS: Slides 8 and 9 are the special
4 lending, HELP, RDLP, Habitat for Humanity. Those
5 programs have all, unfortunately, had to be put on
6 suspension. We do not use the word "canceled." They're
7 on hold.

8 So I think the next thing to do is to move on to
9 slide 11, the mortgage insurance, which is going to be
10 consistent with what you saw with the first mortgage
11 production. It is not surprising that we're below plan
12 on first mortgages. Those are insured by Chuck's folks
13 in mortgage insurance. So that slide is not --
14 shouldn't be a surprise.

15 Any questions on that before we go to a much
16 more detailed, important topic of delinquencies,
17 foreclosures, loss mitigation, REO management,
18 et cetera, et cetera?

19 The dashed line -- what Gary is saying is that
20 the dashed line assumes production under the flow
21 program, so just so you're aware.

22 All right. Let me get right to Chuck. I know
23 we're moving along timewise, so -- and let Chuck talk
24 about what we're doing on the loss mitigation side. I
25 think you all understand that we have moved a group of

1 people and consolidated loss mitigation and REO in one
2 group of folks in Chuck's shop so I'll let him spend a
3 couple minutes on this.

4 MR. McMANUS: Yeah. I don't know that we need
5 to go through the delinquency charts. Basically
6 delinquencies are up, and they're up significantly.
7 They increased beyond September. They continued to go
8 up through the end of December, so we have a lot of
9 delinquents, a lot of foreclosures, and a lot more
10 coming.

11 I would take you to slide 15. I think that's a
12 fairly dramatic presentation of what's happening. The
13 green bar is the buildup of REO inventory. The blue is
14 the inflow, and it's running around 25 month. That will
15 jump to an average of 50 in calendar year 2009. We will
16 have another 600 properties coming through, and so we
17 are very, very busy trying to repair, put on the market
18 and resell these properties.

19 I have transferred two full-time underwriters
20 over to REO to assist them in both short sales and in
21 listing properties and basically have merged my MI
22 division into the REO division, short sale, and the loss
23 mitigation in order to help them because I have good
24 people that can price properties and value them and so
25 forth. So we are not without a lot of work to do. I

1 almost came up here earlier to say we're extremely busy.

2 And the fact there's no new production, there's a huge
3 amount of work on loss mitigation.

4 The loss mitigation, well, we'll do the
5 inventory. If you leave 15, you go to 16, you'll see
6 the mortgage insurance delinquency trends. November was
7 an anomaly. That probably should have been -- you know,
8 would have been 7 percent if it was following the
9 pattern of an increase of a half a percent per month.
10 We're up to 7.6 percent delinquency. That will be
11 reflected in the financials in the buildup of reserves.

12 If you go to page 17, this is the backup in
13 numbers and dollars of the portfolio of delinquent
14 loans. And you can see that there's a total of
15 \$266 million in the mortgage insurance delinquent
16 portfolio. If you take off the 77, the less than 120
17 days, you have 190 million over a 120 days. And I tell
18 you, in this environment with the prices down 40
19 percent, they all go to foreclosure and claim. So we
20 have another 190 million coming down the pike in the
21 next six to eight months into portfolio. In numbers
22 that's 650 to 700 units, properties. A lot of work to
23 bring them, fix them and sell them.

24 We are losing on average a hundred thousand
25 dollars of property after mortgage insurance, if they're

1 insured. Because the \$300,000 properties, we're not --
2 we're not netting 200. It's under that. Properties
3 basically sell at about 60 cents on the dollar to
4 50 cents on the dollar of their original price, and it
5 costs us, you know, 10 percent to handle the selling and
6 everything. So we're losing 50 percent of the original
7 value, and we're talking the 2005, '6 and '7 books.

8 MS. REDWAY: I'm sorry, how many units did you
9 say --

10 MR. McMANUS: The units, on page 17 you can see
11 there's 978 delinquent properties.

12 MS. REDWAY: Uh-huh. So you --

13 MR. McMANUS: And I subtracted the under 120.
14 There's about 700. Because they're over 120 days
15 delinquent now and they're not going to be able to sell
16 because their prices are down so much, they're going to
17 go to foreclosure or short sale, same thing.

18 MS. REDWAY: So if you went back to chart 15,
19 would you just --

20 MR. McMANUS: I'm sorry, Jack?

21 MR. SHINE: So you're looking at a little under
22 a hundred million dollars.

23 MR. McMANUS: In foreclosure or in losses?

24 MR. SHINE: Well, if we're losing a hundred
25 grand a house, there's almost a thousand of them, it

1 doesn't take a mathematical genius to --

2 MR. McMANUS: Okay. I'm not arguing with your
3 number.

4 MR. SHINE: It's really a question.

5 MR. McMANUS: Yeah, let me go -- I have the
6 reserves all done, so I'd rather -- and the reserves
7 address exactly that, Jack. I'm very familiar with the
8 reserve exhibit, and we've got it laid out days
9 delinquent and percentage loss and the adjustment to the
10 overall reserve, and I'd like to use what we've done a
11 lot of work thinking about to answer that question,
12 rather than say a hundred million is right.

13 A hundred million is not the adjustment to the
14 reserve. That, I know. Okay. But over time, it could
15 be. It could be that much incurred over the next eight
16 months. I'm not arguing with your number.

17 MS. REDWAY: Can you help me? I'm just trying
18 to -- what you just described, you just showed us on 17
19 and what you just said about the 700 units and then I'm
20 looking back at like 15 which is the current portfolio
21 of foreclosed properties?

22 MR. McMANUS: Yes.

23 MS. REDWAY: So will this green bar jump by 700
24 depending of what the red bar does?

25 MR. McMANUS: The green bar, we're estimating,

1 will increase by 600 minus what we sell each month. And
2 so --

3 ACTING CHAIRPERSON CAREY: That's exactly --

4 MR. McMANUS: -- we're selling --

5 ACTING CHAIRPERSON CAREY: That's exactly right,
6 yes.

7 MR. McMANUS: -- 20 to 25 a month. We need to
8 get to 50 a month, so it's depending on how we can get
9 that sale rate going up. But, yes, there will be now
10 another 600 to 700 properties coming into REO.

11 MS. GAY: Is that concentration Northern,
12 Southern California, all over? What does it look like?

13 MR. McMANUS: It's all over, but there are pods
14 of -- San Diego is probably our most desperate in total
15 numbers, along with Riverside, San Bernardino. L.A. is
16 growing. Sacramento is growing. But it's all
17 statewide. It sort of followed where our lending was.
18 The high-cost areas don't have many CalHFA loans, but it
19 follows our lending. And you've read where biggest
20 overbuilding is and overconversion, so.

21 ACTING CHAIRPERSON CAREY: Chuck, the REOs are
22 all on the Website; right?

23 MR. McMANUS: The ones that have been priced,
24 fixed up and priced, are listed on the Website in two
25 groups, one that we'll refinance because they're fixed

1 up and repaired, one that we will not because the cost
2 to repair exceeds what we think it's worth, and they
3 basically go to investors and then fix and repair
4 people.

5 And we're working hard to get them on there.
6 We've got a backlog that are in repair. We won't sell
7 something that isn't in good livable environment unless
8 it's an investor property. We're trying to maintain
9 neighborhoods.

10 ACTING CHAIRPERSON CAREY: Ms. Galante.

11 MS. GALANTE: You know, this may not be the time
12 to talk about it. I know everybody's running out of
13 steam and maybe this is something else for March, but,
14 you know, I think we raised a number of months ago the
15 whole issue of loan modifications, and, you know, this
16 is all making an assumption that we're not modifying
17 loans. We're just foreclosing and moving on.

18 MR. McMANUS: Okay. I will say that the beyond
19 120 in the projection I just gave you, very few loans
20 can be modified that are that delinquent. We have a
21 loan modification program developed that we should be
22 able to roll out within two weeks. We've had to do a
23 lot of legal research on it.

24 We are constrained by acting in the best
25 interest of the bondholder, and they have 50-percent

1 coverage. So we have to say anything we do, like
2 reducing an interest rate, reducing a payment rate, we
3 cannot damage that bondholder's position. And if
4 foreclosing with that 50-percent cover protects them, we
5 have to foreclose.

6 Now, to the extent we can show an advantage of
7 avoiding it hitting the indenture -- and that's what
8 we're working on. We're working on modifications that
9 do help both the home buyer, the homeowner, and the
10 indenture total.

11 And those are the programs we're working on.
12 They involve reducing payment rates, capitalizing and
13 deferring payments. We have not gone with a write down
14 of principal because we don't think that we can do it
15 under the indenture, that that would damage that
16 bondholder unless we had a contribution from, say, the
17 federal government to cover that loss, which could come
18 with the TARP funds.

19 But we have a well designed -- it follows the
20 FDIC model, Fannie Mae's model, and that will be rolled
21 out. Up until now we've simply capitalized delinquent
22 payments and had them paid off over a time period.
23 We're looking at deferring it to the final payment, I
24 mean balloon payments and everything we are allowed to
25 do under the indenture.

1 And we should have that for you, as I say, in
2 about two weeks, and we can give it to you at the next
3 meeting.

4 And you all read the paper. I mean, if we can
5 modify 10 percent, that would be a big huge win.
6 60 percent go back into default. It's the history of
7 all the modification programs. But we still want to
8 save that 4 to 5 percent if we can.

9 MS. GAY: I'm on record again. I just can't do
10 it. I can't let this pass. For those of us who run
11 some of those programs, Chuck, there's a reason they're
12 not working, and they're not digging deep enough. Don't
13 write off the principal, fine. But families need to be
14 able to stay in a place of affordability if they've had
15 a life change. All that has to be factored in.

16 The reason people are going back into default is
17 the bulk of the servicers are not modifying in a way
18 that really sets the family back on their feet. And
19 we're probably running the largest numbers in the state
20 right now in Southern California for in-person type
21 meetings, and I can assure you if you model IndyMac, if
22 you model what's typical, then these numbers, you're
23 going to add zeros. It's not going to work for us, this
24 Agency.

25 And so again, this is just -- when I say about

1 change is here, no offense to any of those people, but
2 I'm like Dr. Phil, how's it working for us? And so, you
3 know, how's it working?

4 And I think we've got to be able to ask those
5 really tough questions. A lot of those models are not
6 effective. And what I heard from Steve earlier is just
7 we're trying to get to a quality place for the Agency
8 that you don't have to waste your time, you know.

9 But if there are groups that the State's already
10 compensating to do some of this and part of what I think
11 is a gap in the alliance of CalHFA with some of those
12 agencies that can do this work, spend some time, service
13 the borrowers so that it doesn't have to be your staff
14 digging deep.

15 MR. McMANUS: I can tell you our program
16 involves and requires a record of referral to a
17 certified counseling, credit counseling, agency as part
18 of our program. And we're in conversation with three of
19 them and probably pick one or two as partners. We're
20 already referring to credit counseling. That's a
21 requirement to get the modification. You've got to have
22 someone helping you get back on your feet.

23 I just want to be truthful, that the one thing
24 that's hurting to make it really work is a contribution
25 to write down the overall cash flow required from the

1 borrower. That takes some kind of aid, and we don't
2 have that aid, and so we have to get it someplace if you
3 really want to make it effective.

4 MR. HUGHES: One of the things I'll chime in
5 that you want to mention, Chuck, that we have to look at
6 here is that the way our insurance fund is structured,
7 75 percent of the loss gets shifted to Genworth, and
8 some of the deep modifications have the financial effect
9 of transferring the loss from Genworth to ourselves. We
10 have to preserve that mortgage insurance claim. If the
11 reinsurer would step in and contribute, that makes a
12 difference. If they don't, we're taking a loss that
13 otherwise at least in part would be shifted, so it's
14 very, very tricky.

15 MR. McMANUS: Yeah. I think we'll find Genworth
16 very cooperative. I mean, they are just writing checks
17 now anytime we wanted it, any short sale. They have not
18 been a hindrance whatsoever. And I've got all their
19 programs laid against ours. They believe they're just
20 going to lose their -- they're at 75 percent of our
21 35-percent coverage. All these are more than 40-percent
22 loss. So I think they'll be flexible on any kind of a
23 workout.

24 MS. GAY: I would think if you could think a
25 hundred thousand a unit. Put that back through to the

1 family somehow. There's got to be a win there for you
2 so you don't add, just keep adding.

3 MR. SPEARS: I think that brings us to the end
4 of the homeownership. The only thing that I'd like to
5 point out is that slide 18 gives you an idea of some of
6 the actual write-offs that we're starting to see.

7 When we get to the financial review and we look
8 at the first quarter financials, you will see very large
9 increases in loan loss reserves. Those are accounting
10 entries and estimates, but this slide 18 represents
11 losses that have been incurred, you know, to date
12 actually. So just so you know.

13 So let's move on to the multifamily side.

14 Thank you very much, gentlemen.

15 We have Bob and Margaret.

16 I think we've talked about some of these -- some
17 of these multifamily loans that are in the pipeline,
18 approved by the Board in the July and September Board
19 meetings, and we know that some of those projects are --
20 may not make it, given the current availability of
21 funds, given the economy and that sort of thing.

22 So, Bob, I don't know if you want to speak to
23 slide 20.

24 MR. DEANER: All slide 20 is is an update as to
25 where we were to date. We were having an extremely good

1 year until the credit market blew up. These loans that
2 we show committed are loans that have been approved by
3 the Board to date against year to date goal, which is
4 149 percent against a total goal of 202 million.

5 And then we just go into closed loans. Those
6 are loans we're just converting. And then potential
7 pipeline of which we've got about 165 million.

8 So we were on track to have an extremely good
9 year until things got sideways.

10 MR. SPEARS: Pretty consistent with what you've
11 heard on other fronts.

12 Very quickly on slide 21, two quick updates.

13 The Bay Area Housing Plan. The plan has been
14 there to issue bonds in the amount of a hundred million.
15 We had asked the PMIB for a line of credit that would
16 give us some flexibility on when we go to the bond
17 market, but now that appears to be shut off. So we are
18 currently planning to sell and close bonds towards the
19 end of February, early March. They would be below what
20 we normally have for a rating on bonds, and they would
21 be very high interest rate that we talked about before.
22 We're prepared to go ahead with that.

23 MR. DEANER: And that's so we -- part of that
24 too is the rating agency, Moody's -- oh, this one
25 doesn't work?

1 One thing I just wanted to point out on that is
2 the sale of the bonds because I've been highly involved
3 in that. I tried to do some direct placements with
4 various other banks, and obviously they just -- you
5 know, they don't have an appetite for unrated bonds with
6 what they have going on. And so we exhausted every
7 avenue to get to this point, and this is our only avenue
8 is to sell bonds unrated in the public market. This is
9 part of obviously our debt restructure with the concerns
10 that Moody's gave us with our watch on our rating.

11 MR. SPEARS: Right.

12 The other update is on MHSA. And as you've
13 heard, the approximately \$400 million was actually
14 transferred to the Controller's Office. It went onto
15 our balance sheet. That raised the amount of money that
16 we have available, but of course it's restricted so
17 you'll see a higher fund equity if you were to look at
18 our balance sheet right now, but that's all restricted
19 just to MHSA.

20 For a list of MHSA projects -- which is the good
21 news is there's a lot of work here to do because that's
22 not dependent on the PMIB. It's not dependent on the
23 bond market. We can continue to work on these. On
24 slide 22 there's a list of the projects that the staff
25 is actually working on.

1 MR. DEANER: I'll just mention I've
2 reallocated -- well, not reallocated, I had to add about
3 half of my staff to the MHSA program because it has
4 taken off so well. We have eight projects that we've
5 approved internally for 19 million for both the project
6 and the operating subsidy, but we also have 44 projects
7 in the pipeline for another hundred million, and that is
8 growing on a daily basis. Obviously developers are
9 utilizing every source of funds to make their projects
10 work.

11 And so we're getting -- they apply through the
12 county and the counties come to us, but we're getting
13 our pipeline. And this is, you know, very good for us,
14 is -- is continuing to be a success and going forward.
15 We're going to be extremely busy here. I will probably
16 take more of my staff and add them under the MHSA
17 program because we underwrite these similar to the
18 projects we bring to the Board that we bring to senior
19 staff. We still have to underwrite and scrub the data
20 to present to senior staff to get these loans approved
21 through the program.

22 ACTING CHAIRPERSON CAREY: Mr. Shine.

23 MR. SHINE: Are you saying that the Bay Area
24 Housing and the Mental Health Services are two different
25 plans financed two different ways?

1 MR. DEANER: Correct.

2 MR. SHINE: By the same or two different people?

3 MR. DEANER: Two different ways. They're two
4 separate programs financed completely differently.

5 MR. SHINE: Do -- so all the homes we're buying
6 under the Bay Area plan are not going to have
7 incorporated anything with Mental Health Services?

8 MR. DEANER: That is correct.

9 MR. SHINE: And Mental Health Services money
10 means dollars to build houses or to buy houses as the
11 case may be?

12 MR. DEANER: Right. There's really -- the
13 developers are using it for two functions. One is
14 they're doing a mixed use, say a hundred units. They'll
15 take ten of the units. They'll allocate that to the
16 MHSA portion of the program, and the other 90 will be a
17 mixed use. Or they can take an entire property, four
18 units plus, and make it all shared housing under the
19 MHSA program.

20 MR. SHINE: But the money comes to us.

21 MR. DEANER: We've already -- we've already --
22 the counties actually received the money under the
23 approved MHSA plan or the bond that was passed, and the
24 counties have transferred that money to CalHFA. So
25 CalHFA has \$371 million in an account to utilize for the

1 program.

2 MR. SHINE: And we make first trust deed --
3 notes secured by first trust deed?

4 MR. DEANER: They are not. They are not first
5 trust loans.

6 MR. SHINE: What do we -- when we give somebody
7 money, is there a piece of paper that evidences it and
8 what is it?

9 MR. DEANER: Well, there is -- there is a
10 closing and I guess from the legal side I'd ask Tom, but
11 we come into a second or a third position because this
12 is really soft money that goes into a deal.

13 MR. SHINE: Have we as a firm, as an Agency,
14 guaranteed that money back to the person who gave it to
15 us?

16 MR. DEANER: No.

17 MR. HUGHES: Mr. Shine, the way that the Mental
18 Health Services Act money works, you'll recall that it
19 was Proposition 63 that created a tax on high income
20 earners, and that tax money is dedicated to mental
21 health essentially and goes in a circuitous way to the
22 counties to enact mental health plans. And the counties
23 and CalHFA have essentially worked out an arrangement
24 whereby that county money comes to CalHFA, and we simply
25 lend it out as soft money, a subordinate loan, to make

1 an apartment complex work for a low income mental health
2 clientele.

3 MR. SHINE: We don't have to pay it back?

4 MR. HUGHES: We don't. It's tax money. It's
5 not bond financed. It's simply income tax money. It's
6 dedicated. It's continuously appropriated.

7 MR. SHINE: Can I have some?

8 MR. HUGHES: We essentially administer that
9 program. But it's a way to fill a gap between -- on
10 projects where the income levels won't pencil out.

11 MR. SHINE: It's a subsidy that we give as a --
12 as a way to fill the gap between cost and the financed
13 portion of the cost to build or develop some place to
14 put mental health patients in a home or other
15 environment within each county.

16 MR. HUGHES: Yes.

17 MR. SHINE: And there's no obligation on our
18 part to pay it back.

19 MR. DEANER: No. No.

20 MR. SHINE: And the Bay Area is the money we
21 have with Bank of America's help, and that has to be
22 paid back.

23 MR. DEANER: That has to be because that --

24 MR. SHINE: Are we continuing that program right
25 now, or have we stopped it?

1 MR. DEANER: We have to finish the hundred
2 million that we agreed to, and we have 60 million that
3 we've completed and another 40 million behind it.
4 That's why we're going to sell the hundred million
5 dollars worth of bonds, but going forward we will not
6 repeat the program.

7 MR. SHINE: So we're going to sell a hundred
8 million dollars worth of bonds to pay back the hundred
9 million I guess we got from the bank.

10 MR. DEANER: Well, 60 of it right now -- or
11 close to 60 million of it is on our -- is currently on
12 CalHFA or -- CalHFA lines or various sources that we
13 funded because we have an obligation. Once the deal
14 stabilizes, we have six months to buy that project from
15 B of A. So they take it during the rehab period and
16 then after it's stabilized, we have six months to buy it
17 back.

18 We've accumulated up to 60 million to date. We
19 have another 40 million we've agreed to buy, and
20 that's -- gets you to the hundred million. When that's
21 complete, we will need to sell bonds.

22 So then -- because all of that is on our general
23 obligation, which was a concern to the rating agencies.

24 MR. SHINE: So that's a commitment that the
25 Agency's made to put another \$40 million into that deal.

1 MR. DEANER: Correct.

2 MR. SHINE: And then we're going to end up with
3 a bunch of houses and a hundred million dollars worth of
4 obligations that we're going to have to float bonds to
5 raise the money to finance; is that right?

6 MR. SPEARS: Those bonds will be sold and closed
7 by early March.

8 MR. SHINE: Good.

9 ACTING CHAIRPERSON CAREY: Ms. Javits.

10 MS. JAVITS: Just very quick, it's really
11 exciting to see this program moving along. I would love
12 to have whatever the time is appropriate down the road
13 to hear a more full description of what's going on,
14 perhaps with some of the people from Mental Health in
15 terms of who the customers are.

16 MR. DEANER: Oh, sure.

17 MS. JAVITS: And particularly in light of the
18 fact, kind of what Mr. Shine said, this is the only
19 money around. We just want to make sure it's really
20 actually going to supportive housing for mentally ill
21 people and not for other --

22 MR. DEANER: It is as long as they let us keep
23 it. We're pushing every deal as quickly as we can.

24 MS. JAVITS: I'll bet. It's very exciting to
25 see it under way.

1 MR. DEANER: My staff is working -- just to give
2 kudos to my staff, they are working extremely hard to
3 get these through, these projects through in 60 days.
4 Yeah. They're doing a great job.

5 ACTING CHAIRPERSON CAREY: Great.

6 MR. SPEARS: The next area, very quickly, the
7 one person who -- I mean, Chuck's busy and his staff is
8 busy. Gary is shifting some people around. Margaret's
9 staff is -- only has more work to do every year as we
10 close more multifamily deals and add to her workload.
11 524 properties you can see on slide 24. 13 new
12 properties will close in 2009, adding to the workload,
13 so they are already taxed to the limit staffwise and
14 continue to do an outstanding job of inspecting,
15 monitoring, our multifamily projects.

16 So if no other questions, that brings us to the
17 end of the business plan update. We can move to the
18 financial review.

19 ACTING CHAIRPERSON CAREY: Great. We -- we're
20 at a point where we need a break for our recorder. I'd
21 like the Board's sense of how much time we're willing to
22 commit to that.

23 MR. SPEARS: I don't want to speak for
24 Mr. Gilbertson, but I think there's the long way to do
25 this and the shorter way to do this, and I think,

1 Bruce --

2 ACTING CHAIRPERSON CAREY: Let me get a sense of
3 the Board, where --

4 MR. SHINE: What's longer and what's shorter?

5 MR. GILBERTSON: Well, 15 minutes probably
6 versus 30 to 40 minutes.

7 MS. JACOBS: I'm going to leave a little before
8 2:00.

9 ACTING CHAIRPERSON CAREY: We're on the
10 15-minute -- I think we're on the 15-minute plan if we
11 can we do that.

12 Would you rather press on or should we take a
13 break?

14 THE REPORTER: Can you give me just two minutes?

15 ACTING CHAIRPERSON CAREY: Yes. Let's take a
16 two-minute break. Please don't leave the room. Let's
17 keep it short.

18 (Recess taken.)

19 ACTING CHAIRPERSON CAREY: We're back in
20 session. All right. I think we're in the unfortunate
21 position of being rushed when we get down to the heart
22 of some of the issues here. And out the gate I would
23 like to kind of get a thumbs-up from the rest of the
24 Board that given the nature of the discussions and where
25 we're at today and what we've asked for March that we

1 would commit the day in March for a meeting so that we
2 don't all find ourselves in that bind of having to leave
3 early.

4 MS. JACOBS: Could you remind us where the March
5 meeting is physically?

6 ACTING CHAIRPERSON CAREY: It is in Sacramento.

7 MS. JACOBS: Okay.

8 ACTING CHAIRPERSON CAREY: I mean till probably
9 3:00 or 4:00, I would think.

10 MS. GALANTE: Will you give us lunch? Or we'll
11 pay for lunch?

12 MS. JACOBS: If you could have lunch delivered
13 to the meeting, because it does make --

14 MS. GALANTE: At least we can keep it going.

15 ACTING CHAIRPERSON CAREY: We'll work our way
16 through lunch. We'll work the arrangements out, I'm
17 sure.

18 --oOo--

19 **Item 11. Midyear financial review and update**

20 ACTING CHAIRPERSON CAREY: Okay. Midyear
21 financial update, Steve, Howard, Bruce.

22 MR. GILBERTSON: So in 15 minutes or less.

23 MS. JACOBS: Less is good.

24 MR. GILBERTSON: You can read a lot of this for
25 yourself. The bottom line on the municipal bond market

1 is that there is a bond market. It's still challenged.

2 It's -- it's heavily reliant on retail investors not
3 institutions. Okay. Interest rates are higher. You
4 can read through the material. We've talked about it
5 earlier that we could do some financings, but it's going
6 to achieve an interest rate that's not going to be
7 competitive in the marketplace.

8 The second slide is about the variable-rate bond
9 market. Over the last four months we've talked a lot
10 about our exposure to these and what's going on. There
11 is some good news. Bank bonds are way down. We've had
12 a lot of success in January. The marketplace is
13 accepting some of the Dexia-backed paper.

14 And that, I think, you can see graphically on
15 this slide. We were at almost a \$1.2-billion total back
16 the first week in October. We are now down to
17 \$211 million in bank bonds. We're hopeful by 2/1,
18 that's a week and a half from now, that we will have no
19 bank bonds in the HMRB indenture. We still have some,
20 but we're working very hard on a lot of strategies.

21 Just talk a little bit about our successes
22 because this is the hard work that gets us there.
23 Successfully remarketing \$308 million of bank bonds
24 during January. We removed bond insurance on two
25 financings totaling \$135 million right at the end of the

1 year.

2 Just to give you a glimmer of how successful
3 that was after the hard work, we had bond rates that
4 were about the 5-percent range. We were in a call on
5 New Year's Eve morning, and the remarketing rate was
6 1.1 percent. And then on January 2nd, it fell to 50
7 basis points, .5. So a huge benefit in going through
8 and spending the time and effort.

9 MR. SPEARS: Just to give you an idea of the
10 dedication of staff, early, early, early New Year's -- I
11 mean Christmas Eve morning, what, 2:00 or 3:00 o'clock
12 in the morning, they're working on disclosure documents
13 to get this done. So a very hard working group of
14 folks.

15 MR. GILBERTSON: The -- thank you, Steve.

16 The Board gave us authority to buy bank bonds,
17 if you remember, in the fall. We took advantage of that
18 and actually purchased \$17.6 million in bank bonds.
19 There's a report in the back of your binder that
20 describes that. Again, an economic benefit to the
21 Agency in doing so.

22 Tim.

23 MR. HSU: This slide here just emphasizes the
24 point that we're hoping to have no bank bonds in HMRB
25 come 2/1/09, and the reason that is a key success for us

1 if we were able to achieve that is that if we have no
2 bank bonds in HMRB, it would allow us to manage HMRB and
3 the G-0 obligation in a way that we normally do, in a
4 very effective way.

5 On slide 7, this is an update of time line that
6 you've seen before. The key thing that -- to be
7 emphasized here is that we're still working on the sale
8 of the loans, which we talked a lot about earlier. And
9 we're also starting to think about a transaction in
10 which we could have a bond sale to re-fund some of these
11 troubled bonds.

12 Page 8 is simply an update of something that --
13 a presentation that you've seen before. If you compare
14 this to some of the slides I've shown you before, you'll
15 notice that some of the more colorful numbers have
16 decreased because of some of the success that we had
17 recently, for example, the stripping of the bond
18 insurance, remarketing the bonds and what not.

19 And on page 9, the one thing that we have talked
20 about before is the concept called basis risk. This is
21 just an idea that we're paying more than we had expected
22 to pay. We have updated these numbers recently. For
23 the five months ending 12/31/08, we experienced
24 \$14 million of basis risk.

25 And just to put that in context, which is why we

1 like to present this chart, that five months of extra
2 costs that we incurred, if you will, is equal to the
3 prior 24 months of basis risk. So that's -- that's
4 certainly a degree of basis risk that we never expected.

5 With my limited time I'm going to spend the most
6 time on this chart. I'd like to go back to an idea that
7 was talked about earlier, of the importance of the
8 warehouse line with PMIB, and I hope that this chart
9 does a better job to clarify this issue.

10 We take reservations off this chart. When we
11 take reservations, we -- when it's ready to be
12 purchased, we purchase into the PMIB warehouse. And
13 then after we purchase into the PMIB warehouse -- that's
14 why we call it a warehouse -- that's where we park these
15 loans first. We issue the bonds, and then we use the
16 bond proceeds to buy the loans out of the warehouse.

17 Now, we know that this has been frozen and this
18 is not really working very well. But if the warehouse
19 is still frozen and then the bond market comes back,
20 what would happen is that we would simply issue these
21 bonds in advance of actually buying the loans.

22 So -- but you would say, well, why didn't we do
23 that before? How come we got this? Well, because the
24 warehouse is an opportunity for us to reduce our
25 negative carry. Because normally when we issue bonds,

1 we issue 30-year bonds. And we -- when we have to
2 reinvest the proceeds because we know we need to use the
3 proceeds fairly quickly, it's invested short.

4 So normally the yield curve is steep just by the
5 fact that we're crossing between tax-exempt market,
6 taxable market. We're having to reinvest the proceeds
7 at a negative carry. We're borrowing at 5 percent,
8 reinvesting at 3 percent, for example. But since the
9 PMIB is a short-term borrowing, that matches that
10 funding better in the short term until we issue bonds,
11 and then we swap these proceeds against each other.

12 Now, again, if the primary market to issue the
13 bond comes back, we could have a program that could fund
14 new production, but it would be a bit more expensive
15 because we would be incurring this negative carry. I
16 hope that clears up the issue.

17 I've shown this chart before, and the other
18 connection I want to make is that this is a good segue
19 into the financial statement discussion. We talked
20 before about how we have higher delinquencies from these
21 loans that we expect to repay. Now they have high
22 delinquencies and there's higher default, and as a
23 result, we're having to book higher loan loss reserves,
24 which is an impact on the income statement.

25 When we have repayment -- these days we're

1 getting fewer repayments for sure, but when we do get
2 repayments, we tend to invest them into guaranteed
3 income contracts. And because of the downgrades of
4 these providers, we're having to flow more of this money
5 ironically into PMIB itself, which is investing in
6 short-term paper. So we're getting less reinvestment
7 income from the cash that we are getting, which is,
8 again, an impact on the income statement.

9 And because of the high debt service on some of
10 our bonds that have, let's say, insurance or some of the
11 liquidity banks are not doing so well and also bank
12 bonds themselves, the debt service that we're incurring
13 on our bonds are higher. And this idea that the loans
14 are paying a mortgage rate that's fixed for 30 years or
15 whatnot, and this, because it's going higher, is
16 squeezing our net interest margin, which is, again, an
17 impact on the income statement.

18 So these things -- these three things here -- at
19 a high level -- I'm not touching on all the things that
20 happens on the income statement because there are too
21 many to enumerate, but this is at a high level how we
22 think about the things that we normally are sort of
23 updating you about, let's say, high delinquencies and
24 the bank bonds and, you know, these storing bonds that
25 we have, how do they then trickle all the way into what

1 happens on the financial statements.

2 And normally we don't think about it because
3 those numbers are black, and we don't dwell on it. But
4 now as we enter into the red numbers, I think the
5 questions will surface.

6 And the last thing I want to emphasize here is
7 that in addition to the income statement now looking a
8 little bit different, we are also using some of our
9 restricted cash to do some of the strategic things that
10 we talked about.

11 So, for example, we have been using our
12 restricted cash to redeem some of these storing bonds,
13 these bonds that were underperforming. We have another
14 slide later that talks about how we use some of the
15 unrestricted cash to meet some of the obligations that
16 we have committed ourselves into, funding some of these
17 loans that are already in the pipeline.

18 So this -- you know, these are sort of two
19 take-aways that I would like you to have, that our
20 income statements are being impacted by some of these
21 things we talked about. In addition, our unrestricted
22 or free cash is also declining because we are thinking
23 that we -- partly because of days of like this in which
24 we can use it strategically to get rid of certain
25 issues.

1 And this is an illustration of the net -- the
2 idea that why are we getting lower net income. This
3 green line here is our net interest margin. Just to
4 make sure that we're on the same page when I say that,
5 what is the net interest margin? Net interest margin is
6 simply what we're collecting on the loans minus all the
7 expenses on the bonds and all the expenses that we have
8 on the swaps.

9 And we talked earlier how in the five months --
10 in the five months towards the end of 2008, we incurred
11 \$14 million of basis risk, and that partly works into
12 this number of our net interest margin sort of coming
13 down to a lot lower than what it had been in the last
14 four quarters.

15 And then these two lines also represent
16 reserves, loan loss reserves, we've been booking over
17 time. To be sure, this last quarter these numbers here,
18 I think, are not definitive. I think that the folks are
19 still working on those. But it illustrates the point
20 that our net interest margin, as I said earlier, is
21 declining while we're having to book more losses. These
22 losses are reserves. They're not incurred yet. But
23 nonetheless the income statements are way worse in that
24 we now end up with a negative number.

25 MR. GILBERTSON: So many hours ago we talked

1 about the PMIB and the pipeline that we had projected
2 and the things, and I referred to a slide that was in a
3 later presentation. This is that slide. I'm not going
4 to spend a lot of time, but at the high level you can
5 see the very top row here says the loan pipeline net of
6 anticipated fallout on 12/22/2008. We identified
7 \$126.8 million of loans that we had made commitments to,
8 and we had to figure out how we were going to finance
9 that and honor those commitments if we could.

10 The RDLP loan program, 31.4 of that we elected
11 not to honor, and letters went to the localities. All
12 of the others that represent some 95 million, we did --
13 we will honor. And I would bring you to the lower part
14 of that slide where it talks about the funding status of
15 the pipeline. And if you read all the way across the
16 column to the total column, we committed 39 and a half
17 million dollars of our Housing Assistance Trust to fund
18 that pipeline. We used \$40 million of one of our
19 short-term credit facilities to fund that pipeline. And
20 the other two were smaller components.

21 Certainly we had some repayment moneys from some
22 of the state proposition programs. And then we also had
23 a strategy for a while -- I think we discussed this with
24 the Board -- to use bond indenture reserve account
25 moneys to acquire some of these MBSS, which are the Home

1 Choice and the CSHLP.

2 This is one other picture of kind of earlier
3 conversations. We talked about available cash and some
4 of those concepts. This slide was intended to give you
5 a ballpark estimate of the unrestricted cash and
6 investments the Agency has. There's three boxes. It
7 works across. You have the HMRB, a special limited
8 obligation of the Agency. We have access to that cash
9 only if we have no bank bonds. There's \$171 million
10 there. And all of the other accounts would total 298,
11 leaving us 469.

12 Some of that cash has already been deployed.
13 Follow down the chart. Under the uses you will see that
14 we've already noticed redemptions of the \$42 million.
15 We have bank bond term-outs before February -- at
16 February 1st of \$10 million. We're funding the
17 pipeline, \$79 million. And then this GAP reserves --
18 this is really the insurance reserves that we are
19 committed to paying because of the defaults -- is \$32
20 million.

21 Over the coming few Board meetings, we're going
22 to really develop this, and I think we'll be back and
23 present you something in a much bigger, more robust way
24 so that it makes sense to you.

25 Here's another interesting thing, because this

1 is something in the back of our minds, Tim and I anyway,
2 is that we have these bank bonds. We have 158 million
3 that still might be outstanding. And how does that play
4 out over a time horizon? This lays it out. It's
5 relatively modest except for two -- these are quarters.
6 These are semi-annuals -- semi-annual term-outs of in
7 excess of \$10 million. To the extent that we don't
8 redeem or re-fund the bonds, we'll be facing this
9 accelerated principal amortization.

10 MR. SPEARS: Much of what we've talked about
11 over the past few months has not yet been borne out in
12 the financial statements. And so it is my unpleasant
13 task to tell you that now things are starting to roll
14 into the accounting records and accounting statements.
15 Yesterday Dennis and his staff completed the preliminary
16 combined CalHFA income statement and balance sheet for
17 the first quarter.

18 So I mean, obviously the things that are going
19 to impact that are increasing delinquencies and
20 foreclosures. As a portfolio lender, the accounting
21 rules require --

22 MS. GALANTE: First quarter?

23 MR. SPEARS: First quarter would be July,
24 August, September.

25 MS. GALANTE: That just ended.

1 MR. SPEARS: It ended September 30.

2 As a portfolio lender, we hold the loans
3 receivable on our books at unpaid principal balance. We
4 reserve against that based on delinquency experience.
5 If we were an investor and somebody else, if we just
6 bought these as investments, holding them as
7 investments, we would be required to mark them to
8 market, every single loan mark to market. That's not
9 our accounting rules that we're required to abide by. So
10 when we are increasing loan loss reserves, it is based
11 on experienced delinquencies, and that's what's
12 happening here.

13 Of course, home price depreciation isn't
14 impacting us because as we make these estimations, it's
15 based on what we believe we'll be able to sell that home
16 for that goes into foreclosure. And, of course, as that
17 home price declines, our losses go up.

18 So the disrupted bond market, obviously we have
19 bank bonds that are -- we're required to pay a much
20 higher rate of interest on. And lower short-term
21 interest rates, the money that we do have on -- invested
22 in the public -- the Pooled Money Investment Fund are
23 earning less than in previous years because, as we've
24 all seen, short-term interest rates have declined.
25 That's what the State Treasurer invests in, in a very

1 safe way, but, of course, it impacts our investment
2 income.

3 So here's what we have in the preliminary
4 financial statements for the first quarter. Year over
5 year, first quarter of last fiscal year and the first
6 quarter of this fiscal year, a \$5-million decrease in
7 investment income because of lower -- the investment
8 base is pretty much the same across the board. We had
9 the \$400 million in MHSA money came into that pool, but
10 it was very late, so that doesn't factor into it.

11 The \$14-million increase in bond interest costs,
12 we have 800 million more in bonds outstanding, so part
13 of that is just due to the fact that we have more bonds
14 to pay interest on, but a great deal of it has to do
15 with market disruption. The big hit, though, is the
16 \$14-million increase in loan loss reserves. Obviously
17 that has a big hit.

18 The good news is we do have more loans on our
19 books than we did last year, and we have interest income
20 increase of about \$10 million on loans receivable. The
21 net swing from an \$11-million income in the first
22 quarter of last year and a \$12-million loss for first
23 quarter this year, that \$23-million swing is pretty much
24 explained by those four items.

25 So that's the news. I think on the next slide

1 my comments on that, that's a trend that we're going to
2 see for a while. As delinquencies continue, as they go
3 up, as more loans become delinquent, those loan loss
4 reserves will have to be increased to match that, and
5 that's what you're going to see.

6 What you're also going to see, though, are
7 probably very little increase in the number of loans
8 receivable over the next year because we're not bringing
9 more loans in. So that will flatten out.

10 But quickly on the balance sheet summary, we did
11 bring the \$400 million in MHSA funds in. The fund
12 equity went up by 389, but that's primarily due to that
13 transfer. It's a restricted transfer. I wouldn't want
14 you to get the idea that, yahoo, Moody's is going to
15 think that there's an extra \$400 million in capital.
16 It's restricted. We would not be able to use that to
17 make Moody's happy.

18 So that's it in a nutshell. That's a trend I
19 think you should continue to expect. Again, these are
20 accounting entries. As those REO inventories increase,
21 as these things come -- as the delinquencies turn into
22 foreclosures turn into REO inventory and we actually
23 have losses, those will go against the reserve, and that
24 will hit also our liquidity as we're, you know, paying
25 money out for losses. That will come down -- down the

1 road. These are accounting losses. It's a shrinkage in
2 our fund equity to that extent.

3 ACTING CHAIRPERSON CAREY: Ms. Galante.

4 MS. GALANTE: So have you tried to take this
5 trend and take the actual delinquency trends and all of
6 that and actually model what your expectations are for
7 the next --

8 MR. SPEARS: We have and I think --

9 MS. GALANTE: -- year?

10 MR. SPEARS: -- Bruce might correct me slightly,
11 but this is the exercise that we go through with
12 Moody's. What they do is they add back this loan loss
13 reserve. That's an accounting calculation. And then
14 they take a loan-by-loan analysis, and this is some of
15 what Chuck has been doing as well. And of that entire
16 loan portfolio -- you know, forget about accounting
17 rules and that sort of thing. Out of that whole loan
18 portfolio how much do we expect will go delinquent, how
19 much do we expect will go to foreclosure, how many
20 losses, and then they compare that to the capital and
21 they test our capital adequacy based on that.

22 And they have a number of different models, a
23 number of different scenarios that they run, some more
24 severe than others and some disastrously severe. And
25 they pool all that together to some up with an estimate,

1 and then they compare it against the capital that we
2 have available.

3 ACTING CHAIRPERSON CAREY: Ms. Jacobs.

4 MS. JACOBS: I think for the March meeting when
5 we're going to sort of get into the fabulous future --

6 MR. SPEARS: Yes.

7 MS. JACOBS: -- you know, I think what we want
8 to do is we want to look at the balance sheet as well as
9 the income statement and projections and what plans you
10 have to keep equity at a certain level. I think that's
11 a real important thing to look at. What do you think is
12 the equity that is necessary to maintain, unrestricted
13 equity, for, you know, future ratings and ability to
14 sell bonds? I mean, those are the kind of things that
15 we want to discuss in March.

16 MR. SPEARS: Right.

17 MS. JACOBS: And that's why I think, you know --
18 that's why I may have been a little cavalier about when
19 we were looking at the income statement and the
20 authorization that you wanted, but I think we need to
21 look at, okay, going forward what kind of tough choices
22 do we have to make in terms of expenses?

23 MR. SPEARS: Right.

24 ACTING CHAIRPERSON CAREY: Mr. Shine.

25 MS. JACOBS: And I think that's appropriate for

1 the March discussion.

2 MR. SHINE: Can you tell me as to loan loss
3 reserves and also again from the insurance loss
4 reserves, how much are they now?

5 MR. SPEARS: The net amount -- do you have that?

6 MR. MEIDINGER: On the insurance fund, \$18-
7 million loan loss reserve and that's --

8 MR. SHINE: On the insurance.

9 MR. MEIDINGER: That's on the insurance.

10 MR. SHINE: And on the loan loss reserves, is
11 that different? That's a different reserve; right?

12 MR. MEIDINGER: Right. Well, that's on the
13 insurance fund, which is covering the top 50 percent of
14 just single-family loans.

15 MR. SHINE: And the rest?

16 MR. MEIDINGER: And the rest is about
17 32 million, and that's on the rest of the California
18 Housing Finance --

19 MR. SHINE: So we've got about \$50 million
20 consolidated in reserves of one kind or another --

21 MR. MEIDINGER: Right.

22 MR. SHINE: -- in round numbers.

23 ACTING CHAIRPERSON CAREY: Just to piggyback on
24 what Ms. Jacobs had said, I'm going to propose that at
25 the meeting in March, that we pick up where we've left

1 off, that it seems to me that, you know, we don't want
2 to say we're fighting for survival, but we are. And the
3 Agency is facing financial challenges. And I think that
4 frames all of the discussion.

5 So I'd like to suggest that at the March meeting
6 we pick up at this point and talk about the fiscal
7 realities both in terms of what we have now and some
8 look ahead, which will certainly help to frame the
9 discussion of where we want to go and what our potential
10 is.

11 And I'd like to suggest that we limit or deal
12 with as expeditiously as possible the noncritical items
13 on the agenda so that we can focus our energies on both
14 completely understanding the fiscal picture and where
15 we're going.

16 Ms. Javits.

17 MS. JAVITS: I just want to second that. It
18 would be great to get to the work plan when we're fresh,
19 nearer to the beginning.

20 And then there's two other things. Just I'm
21 sure I speak on behalf of everybody. We're just knocked
22 out by the staff that we have working on this. I mean
23 having watched this picture change, thank you for
24 working so hard. Thank you for working so late. Thank
25 you for being so smart about it. And we're just very

1 fortunate, given the level of resources that we're
2 talking about here.

3 And then the second thought, I would request --
4 I don't know if the other Board members would agree with
5 this -- that on behalf of the Board we ask the Chair to
6 write a letter to the Governor asking for some new
7 appointments to the Board. I have tremendous respect
8 for everybody on the Board. I think we have an
9 incredible Board. We try to be really attentive to the
10 issues that are at stake, but I just feel that the
11 complexity of the finances that we're talking about
12 there I just think beg for some additional -- you know,
13 in addition to the great people that we have here, it
14 would really be able to provide that kind of
15 thoroughness that I think would benefit the staff and
16 benefit the Board.

17 So I would -- unless there's objection, I would
18 ask for the Chair to please urge the Governor for new
19 appointments --

20 ACTING CHAIRPERSON CAREY: You bet.

21 MS. JAVITS: -- people who have that background.

22 MR. SHINE: Is that all that's left is the two
23 appointments from the Governor? Are the Legislature's
24 all done?

25 ACTING CHAIRPERSON CAREY: Yeah.

1 MR. HUGHES: There's two, the Board Chair and
2 one other position is currently vacant.

3 MS. JACOBS: And does that position have an
4 expertise attached with it? Or is it a general? What's
5 the category? Do you know offhand?

6 MR. HUGHES: Honestly, unless you know, Jojo,
7 I'd have to go -- we keep a chart of that, but I
8 don't --

9 MS. OJIMA: We do have a chart.

10 MR. HUGHES: -- have it at my fingertips.

11 MR. SHINE: It would be nice to have someone
12 from the bond issuing community.

13 ACTING CHAIRPERSON CAREY: Yeah.

14 Okay. I think we are at the point -- there are
15 other things, other reports -- yes, Mr. Spears.

16 MR. SPEARS: There is one other slide about --
17 there is some good news, and that is we are far below
18 current budget. This is consistent with prior -- I went
19 back to see is this normally where we are. We're in the
20 low 40s as far as percent of budget, and that has been
21 the case for the last two or three years.

22 I know this, that there are substantial
23 expenditures. We've just hired somebody to come in.
24 They've either arrived or about to arrive to work on the
25 new loan reservation system, talking about the future,

1 and that will require a great deal of experience, so I
2 expect that that number would go up substantially in the
3 second half of the fiscal year.

4 And you see the positions, the current
5 vacancies, 32. This is where the number came in for the
6 furlough impact. It's approximately 800,000. And,
7 again, you guys already know this, we have shifted
8 workload around. And those are the things -- the
9 staffing issues is what we'll look at in the off-site.

10 MS. JACOBS: Great. And I think the alternative
11 of what you could contract out for.

12 MR. SPEARS: Yes.

13 MS. JACOBS: As opposed to have staff.

14 --o0o--

15 **Item 12. Reports**

16 ACTING CHAIRPERSON CAREY: In the reports is the
17 investment report that Bruce was going to try to get
18 back to you. It is in the packet, annual investment
19 report.

20 --o0o--

21 **Item 13. Discussion of other Board matters**

22 ACTING CHAIRPERSON CAREY: Are there other items
23 from the Board?

24 So we will -- we will plan on the opportunity
25 for a more involved discussion at the March meeting.

1 Oh, I'm sorry. But I'm not quite done. Thank you,
2 though.

3 The -- I really want to express appreciation on
4 behalf of the Board to the staff. I know that these are
5 very, very trying times as an Agency, and we really --
6 we recognize and appreciate the progress that's been
7 made and the amount of work that goes into it.

8 I also appreciate the Board and their patience
9 and active engagement today.

10 And, Mr. Spears, welcome to the role of acting
11 executive director.

12 MS. PETERS: Careful what you wish for.

13 ACTING CHAIRPERSON CAREY: And thanks for all
14 that you've picked up in this first month.

15 MR. SPEARS: Thanks. And I will pass along to
16 the staff. It will be greatly appreciated to know of
17 your appreciation. We'll pass that along. We've tried
18 to communicate, but it's been a rough month. The
19 furlough plan's announced, a lot of uncertainty, the
20 lending -- we're out of the lending market. They don't
21 like to be on the sideline. They work here because they
22 like what we do. They love our mission. They would
23 like to be back doing that as soon possible. Thank you
24 very much.

25 --o0o--

1 **Item 14. Public testimony**

2 ACTING CHAIRPERSON CAREY: This is the moment
3 when we allow -- make an opportunity for public
4 testimony. Is there anyone in the public who would like
5 to address the Board?

6 Seeing none, we are adjourned.

7 (The meeting concluded at 1:39 p.m.)

8 --o0o--

1 REPORTER'S CERTIFICATE

2
3 I hereby certify the foregoing proceedings were
4 reported by me at the time and place therein named; that
5 the proceedings were reported by me, a duly certified
6 shorthand reporter and a disinterested person, and was
7 thereafter transcribed into typewriting by computer.

8 In witness whereof, I have hereunto set my hand
9 this 29th day of January, 2009.
10
11

12 _____
13 Yvonne K. Fenner

14 Certified Shorthand Reporter

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