STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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

Thursday, May 21, 2009
10:07 a.m. to 12:14 p.m.

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Minutes approved by the Board of Directors at its meeting held: July 9, 2009

Attest: ____________________

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

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APPEARANCES

Directors Present:

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

KATIE CARROLL
For BILL LOCKYER
State Treasurer
State of California

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

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

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

JACK SHINE
Chairman
American Beauty Development Co.

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith
A Professional Corporation

L. STEVEN SPEARS
Acting Executive Director
California Housing Finance Agency
State of California

BROOKS TAYLOR
For Cynthia Bryant
Director
Office of Planning and Research
State of California

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CalHFA Staff Present:

ROBERT L. DEANER, II
Director
Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing
Financing Division

LORALYN HAMAHASHI
Deputy Comptroller

THOMAS C. HUGHES
General Counsel

CHARLES K. McMANUS
Director
Mortgage Insurance

JOJO OJIMA
Office of the General Counsel

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Speakers from the Public:

DOUGLAS K. AUSLANDER
Managing Director, Credit & Financial Products
Municipal Securities Division
Citigroup

RICHARD GERWITZ
Managing Director, Municipal Securities Division
Citi Community Capital
Citigroup

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BE IT REMEMBERED that on Thursday, May 21, 2009, commencing at the hour of 10:07 a.m., at the Burbank Airport Marriott Hotel and Convention Center, Glendale and Pasadena Rooms, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRMAN CAREY: This is the May 21st meeting of the California Housing Finance Agency Board of Directors. Thank you, Board Members, for taking the time to be here.

The first order of business is the roll call.

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Item 1. Roll Call

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner.

MS. PETERS: Here.

MS. OJIMA: Ms. Gay.

MS. GAY: Here.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Here.

MS. OJIMA: Ms. Carroll for Mr. Lockyer.

MS. CARROLL: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Smith.

MR. SMITH: Here.

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

MR. TAYLOR: Here.

MS. OJIMA: Mr. Genest.

(No audible response.)

MS. OJIMA: Mr. Spears.

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON CAREY: Thank you, JoJo.

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Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: A couple of brief things. First, I'd like to mention that I've asked Reuben Smith if he would be willing to join the Audit Committee in the seat recently vacated by Carol Galante, and he was very nice to agree to do that. And so he is now a member of the Audit Committee.

One other thing for the Board, it appears that we're going to need to have a meeting in June to approve the business plan and the budget and with great hope that we'll have some sense of actions on a national level. And the starting point would be the 18th of

June, and so perhaps folks could check their calendars. And if that works, we could agree on that this morning and save a lot of back and forth.

MS. JACOBS: Okay. I know I'm not available.

ACTING CHAIRPERSON CAREY: You're not available.

MR. SHINE: I am not available.

ACTING CHAIRMAN CAREY: You're not available. That starts to -- is the next day a possibility, the 19th?

MS. JACOBS: No.

ACTING CHAIRMAN CAREY: No, okay.

MR. SHINE: It's a bad week.

MS. JACOBS: It's the Pacific Coast Builders Conference.

MR. SHINE: You'll be the only one there.

ACTING CHAIRMAN CAREY: What about the following week?

MS. JACOBS: But I'll be speaking so at least I can practice if there's nobody in the audience.

MR. SMITH: If I'd have known that, I'd have changed my plans.

ACTING CHAIRMAN CAREY: So just for JoJo's benefit since she's going to have to manage this, Ms. Jacobs, that week is out for you, pretty much?

MS. JACOBS: Um-hmm.

ACTING CHAIRPERSON CAREY: And, Jack, that week is out for you pretty much?

MR. SHINE: Yeah, that's a bad week.

ACTING CHAIRMAN CAREY: Okay. What does --

MR. SHINE: How about the following week?

ACTING CHAIRPERSON CAREY: What does the following week look like? The 25th? Any problems with the 25th?

MS. JACOBS: Possibly. The 26th would be okay, though.

MR. SHINE: Traveling on Friday?

ACTING CHAIRMAN CAREY: The 26th? Any problems with the 26th? Does that work, the 26th, Friday, the 26th? For those who are --

MS. JACOBS: Ms. Carroll?

MS. CARROLL: Possibly.

MS. OJIMA: Mr. Smith?

MR. SMITH: I'm fine.

MS. OJIMA: Mr. Shine, the 26th?

MR. SHINE: If you need a quorum.

MS. OJIMA: Thank you.

MS. GAY: Fine with me.

MS. OJIMA: Thank you. Okay, the 26th.

MR. SMITH: Sacramento or here?

ACTING CHAIRMAN CAREY: I think the thought would be here.

MR. SHINE: Oh.

ACTING CHAIRPERSON CAREY: Okay. With that, we will move on. And, Steve, you're up, discussion, recommendation, possible action --

MR. SPEARS: Well, just a few comments before that.

ACTING CHAIRMAN CAREY: Oh, I'm sorry, yeah. Every time.

MR. SPEARS: No worries.

The first thing is I think you'll hear a little more good news from staff today. The main thing is we have a new tool to help with growing delinquencies, lengthening delinquencies. We've announced a loan modification program. A bulletin went out.

It is very similar to the FDIC approach. It is not the President's plan, and the reason for that was the President's plan is geared off a net present value model, which we have to go back and look at how that impacts bondholders. Because our bond indenture is an old bond indenture and has 50-percent coverage for the life of the loan, there's almost no situation where there's a positive NPV. So rather than do that, we went back, followed the FDIC approach, and we think we have a program that will be very successful.

In the meantime, while we were designing this program, I placed a moratorium on foreclosures because I just thought it would be pretty tragic if we got done with the program, it worked really great, and unfortunately two weeks before somebody got kicked out of their house. It just didn't make any sense. But it has created a backlog of files, and so we've pulled I think -- Gary, am I correct? -- eight people, seven or eight people, to go from homeownership where not much activity is going on now over to loan servicing to pick up those files and start going through the process and try to speed up the process.

We've sent a bulletin out -- we've sent a letter out to servicers because we expect this tool and this new activity to improve their performance in servicing loans. We expect to see some -- some improvement. And we've let them know in a very professional way that we expect to see better performance and we're going to be looking at that. So it's something that we promised the Board at the last meeting, that we would start to get after, if you will, some of those servicers. So we've done that.

The other activity item is that we're back in the lending business. We have made CHDAP and school facility fee available for downpayment assistance again, and we're going out close to June the 1st, it might be a little bit after that, with a 30-year fixed-rate loan product that we do not need bond financing for. It is a deliver for cash program where in partnership with Fannie Mae, with Bank of America/Countrywide or whatever they're called now, we will deliver these loans for cash to them for them to own, but we are now going to start being able to put CalHFA loans back out there or CalHFA back out there in lending, which is such a relief for staff.

Staff are frustrated right now. They work here to lend. They work here for the mission. They really want to get back out and get borrowers applying again for CalHFA loans. And that -- that will be happening very quickly.

Yes.

MS. GAY: Will the underwriting look similar to what we've seen in the past?

MR. SPEARS: Yes. And it has to. We've got -- it will be similar. It's -- you know, we've got Fannie Mae as a partner. We've got Bank of America/Countrywide as a partner. It's -- I remember your comments of January. Understood.

The final thing before we get to item 4 on the agenda is that we still do not have news from Moody's.

We have one significant event. They have sent Bruce a significant piece of work product which is their first go at capital adequacy, if you will. They -- they take a look at what capital we have by their definition, make a list of all the risks they believe that are in our balance sheet, and then assign a capital charge to each one of those and then weigh those two numbers.

And finally they have sent Bruce a work product to look at, review. Had a very long conversation with them last Friday. Conversations continue on. There are a number of other issues that they're still looking at, but it is a step closer to some sort of rating action of some sort. It could be ten days. It would be two weeks. It could be another month. They are not given to putting out a schedule on these things.

They have had conversations -- and this is kind of getting us to our next agenda item. They have had conversations with our counterparts at the federal government that are working on the state FHA plan about should they wait, what's the package look like, and those conversations have been between the federal folks and Moody's. We don't know exactly what those conversations have been like. But it's action. You know, at this point we're happy with them taking as much time as they would like. Take your time, get it right.

In the meantime, we have the federal assistance package to look at.

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Item 2. Approval of the minutes of the March 26, 2009 Board of Directors meeting

ACTING CHAIRMAN CAREY: Steve, before you move on, let me correct an oversight on my part. I neglected to bring the minutes up for approval.

And so if folks have had a chance to review those minutes --

MS. JACOBS: Move approval.

MS. GAY: Second.

ACTING CHAIRPERSON CAREY: It's been moved and seconded. Roll call, please.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Ms. Gay.

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

MS. OJIMA: The minutes have been approved.

ACTING CHAIRMAN CAREY: Thank you.

MR. SPEARS: Okay. A housekeeping item: You have several different handouts in front of you. I'm going to try to get these organized before we dive into the program --

This secret document, which the seal cannot be broken until into we get into closed session, is for item 6, closed session, so just set that aside, and we'll deal with that down the road under item 6.

We have something called CalHFA Board Meeting Tax-Exempt Bond Securitization, "TEBS." Do you have that? That goes -- it's already neatly hole-punched and everything. That goes under item 7 tab, so if you could just place that in your binder, that will come up conveniently under item 7.

Then you have two more handouts. One just simply says "CalHFA Board Meeting." Looks like this. You have all but one page of this in your -- so if you can just reach to the back of that little package and take off the last page. It says "Financial Results."

Looks like that. And that goes in the back of -- the very back, if you're going by your -- if you're going by your Board page numbers, it's the very, very last page of that.

MS. JACOBS: I have the wrong handout, sorry.

MR. SPEARS: This follows page 120 in your Board binder.

And once you've got those in place, the other handouts that you have are already in your binder, so I think once we complete those little tasks, we're ready to roll.

All right. So if we could start with the slides, Bryce.

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Item 8. (Business Plan)

Item 9. (Operating Budget)

MR. SPEARS: Behind tab No. 4 you have some slides that are also going to be on the screen. And if you go to the next slide.

This is the presentation outline for today. And as I notified you in the e-mail last week, without information from Moody's regarding their intentions on our rating, without more detail or any detail about a state HFA assistance package and the details that would apply to CalHFA, we just don't have enough information to deal with items 8 and 9, which is the business plan and the operating budget. This will mainly be a briefing session.

The only choice was to not have this meeting and put all of this briefing and all of this updating plus the business plan plus the operating budget in a June meeting, which would again be a marathon session, which we thought it's better and more timely to do the briefing now, ask for your guidance, for your direction, on a couple of items, and then go to the June meeting with a lot -- with a lot more focus on just the business plan and the operating budget.

So we're going to brief you on the federal assistance plan. Bruce, Chuck and Lori are going to brief you on the financial strategies, our six months' accounting financial statements and our delinquencies and portfolio performance in item 5. And then we're going to go into closed session and have a continuing -- a continuation of our discussion that we had at the last closed session. I don't think it will be long.

And then in item 7 we'll talk about this multifamily loan sale and securitization action. And we have Citibank here with us, bond counsel and Bob Deaner, Bruce, will all be involved in that discussion. We have one other or two other minor items that we'll have to deal with besides that, but that's the bulk of what we're going to talk about.

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Item 4. Discussion, recommendation and possible action regarding federal assistance for state housing finance agencies

MR. SPEARS: So let me move on to the next slide and move on to item 4, the possible federal assistance.

Since we put this slide together, things have progressed to the point where I think the status is that we could see an announcement on this very soon. A HUD official, a special -- a senior advisor to HUD Secretary Shaun Donovan testified this morning before the House Financial Services Committee on this package. It was a bit of a surprise. Nobody really knew. The testimony, I have a copy of it here. We can probably get copies for everybody. We just received it. I just barely had a chance to read it. But it looks like this is moving along.

This -- we've been in frequent contact. There is a working group. And the process that has been followed to this point is that Treasury has been the point on all of this. HUD weighs in on policy decisions, but options, proposals, have been floated up the line from Fannie Mae and Freddie Mac to FHFA and then on to Treasury, and those have gotten vetted back and forth and back and forth. So the principals in all of this are the HUD and Treasury Secretaries and the White House, but we're not sure at what level at the White House.

So we know now that the principals have met with Treasury, the point individual there, and gone over a number of options, and they've come back with a lot of questions. And those questions are being answered, and more fact sheets are being put together.

And pricing now is the conversation of the day. In fact, Friday afternoon I received a call from the Treasury fellow that's the point person who started to talk about pricing. We got together with Bruce, Tim was involved, and a number of us on a pricing call with them on Tuesday. I found out later they were calling a lot of people around the country, not only other HFAs but also bankers to try to figure out how to price these various options.

They are still talking about a three-pronged approach, which is the way this testimony is written up: New bond money, so the ability to sell bonds to finance loans at a competitive rate; new liquidity to replace existing standby bond purchase agreements for existing variable-rate debt; and credit support for weaker credits or threatened credits, those three things. And that's kind of come down to the basic package.

So the status, we believe right now, is this is all -- once they get the pricing determined in the next day or two, that an announcement could be made as early as Friday. And we've heard Friday. We've heard Monday. This has been just a terrific rumor mill.

But let's flip to the next slide and talk about -- in a little more detail what this would look like. But the federal government, and we're not sure how, would buy bonds, state HFA bonds. And the number that we've heard thrown around is $30 billion of bonds nationwide over the next two years, which would be a tremendous amount of money. And if they would buy them at a rate that would allow us to mark them up a bit to pay the bills and then put a loan out there that would be competitive in the marketplace, that would be wonderful. But we're not sure of the number, and we are not sure yet of the pricing.

On liquidity, as we've told you before and Bruce can recap in the next segment, we have a lot of variable-rate debt that's out there that has attached to it standby bond purchase agreements that are coming due for renewal over the next two years, and they're being priced completely out of all bounds of reason to what we've seen in the past, is the best way to put it.

So we need reasonably priced, reasonably termed liquidity facilities, and they're talking about that, but only for state HFAs with strong credit, which they define as Double A. For those state HFAs under threat of downgrade or with a weaker credit, they are discussing -- and I don't know where they are with this -- credit support. And their objective is to try to prevent a downgrade, try to prevent this watch from turning into a downgrade.

Well, our hope is that they will be able to do that, and we're not sure what form that takes yet, and we don't know what the pricing is with that. But those are discussions that are going on right now.

So it's very late in the game. We've discussed several different ideas with them, an idea to backstop Genworth claims, you know, for CalHFA and other whole loan states, an idea to backstop Genworth period, to provide us with a direct pay letter of credit. We've talked about a number of different options. We're just not sure which one they liked and are proceeding on. They may have a whole bunch of them that they take up to the HUD and Treasury Secretary for discussion, just not sure yet.

So let me stop there, ask if there are any questions. I don't have a lot of answers, unfortunately. Wish we did.

MS. PETERS: How many states fall into that third category with us?

MR. SPEARS: I know of the following: Vermont has already been downgraded, and they're on watch by both Moody's and S&P. Moody's has already put on watch for possible downgrade Wisconsin, Illinois, South Carolina -- who else, Bruce? Is that it?

MS. JACOBS: You would think Michigan. I don't know.

MR. SPEARS: Michigan, that's what we hear, is that Michigan is having its troubles. No rating action has happened. But I don't disagree, Lynn, I really don't.

Some of these state HFAs are not like us in the sense they don't hold whole loans. They may have had a huge decline in home values in Michigan, but if they are an MBS state and they hold MBS on their balance sheet, unaffected.

MS. JACOBS: They're unaffected.

MR. SPEARS: Right.

So -- and they may be FHA driven. And if they're FHA or they hold MBS, they don't have the real estate risk on their balance sheet that we do. So that may be the -- that may be the answer. I'm not totally sure.

But I would guess somewhere in the neighborhood of six or eight of us altogether, including CalHFA.

And I know that -- I know that on Monday when the Treasury individual talked to us, he was also calling all around the country to other HFAs and getting pretty much the same information about pricing that -- at present they don't believe that liquidity facilities were priced correctly in the past. I don't know. I can't be the judge of that. They were priced the way they were priced.

We put our capital structure together the way we did, and I believe it would be wrong for them to come in and plop down on top of us right now a theoretically correctly priced liquidity facility, given all the history. But we can only tell them what we can stand, how much pain we can stand, and let them make the decision.

So we'll -- as soon as we find out the details, I will e-mail all the Board members with the package. We'll let you know. We'll do a little analysis. We'll let you know how it impacts us as far as we can tell. Can't predict what it will be.

Here's one issue, though, and that is since we don't know what it is exactly, I can't really tell you what level of authority it will take to accept it. So it's not beyond the realm of possibility, Mr. Chairman, that we would have to have some sort of emergency Board meeting to accept all or part of this. I don't think so, but I just want to put everybody on notice that that's a possibility.

MS. JACOBS: Question.

ACTING CHAIRMAN CAREY: Ms. Jacobs.

MS. JACOBS: Is there any possibility with an emergency Board meeting you can do it on the phone? I know I could ask over there, but.

ACTING CHAIRMAN CAREY: Mr. Hughes?

MR. SHINE: Oh, boy.

MR. HUGHES: Well, we have something of a history with this. There is a provision in the open meeting laws that allows for teleconference meetings with a variety of limitations. We as a matter of policy have elected not to do that in the past but sometimes limitations are great significant difficulties, but it's legally possible.

ACTING CHAIRMAN CAREY: There are great complications including the fact that every site has to be a public -- a noticed public --

MR. HUGHES: And it has to be -- those sites have to be identified in the agenda notice that goes out ten days before, and they have to public -- they have to be posted for public access, and they have to be wheelchair accessible, ADA accessible, and so forth. There's a variety of things, but, yes. You can't use cellphones. You have to have a public place. It has to be a duplex system, a speaker phone system where everybody in the room can hear. And again, it has to be posted and made public in advance.

MS. JACOBS: I'm just wondering when you talk about an emergency meeting, which has a shorter notice period you would think?

MR. HUGHES: There are also provisions for emergency and special meetings. Those are somewhat different things, but they are very, very limited in what -- in the conditions that will trigger the ability to do that, so we'd have to go back and look. I'm not sure this falls within that frame.

ACTING CHAIRMAN CAREY: But that would certainly be an issue to look at, whether we could do that.

MS. JACOBS: Just if you need action right away, it's going to be a challenge to get a quorum that way. You might have one site in L.A. and one site in Sacramento, for example. Just to, you know -- if you have to have action right way. That's all. Just a thought.

ACTING CHAIRMAN CAREY: Mr. Shine, did you have a --

MR. SHINE: Steve and I had a conversation a couple of weeks ago when I called to inquire about the status of Genworth, which I had read was getting precarious. And my question is -- not my question, my request is would you talk to us for a moment about Genworth, its impact on us if it fails, its impact on us if it's left alone and only penalized the way it's been penalized thus far. And I'd like to clarify because I'm concerned about Genworth being an off-site partner, so to speak, in the insurance, and here they are maybe precariously going broke. If they go broke, what is the impact on us and our financial statement and situation?

MR. SPEARS: Moody's downgraded all the major mortgage insurance companies in I think February -- correct, Chuck?

MR. McMANUS: Yes.

MR. SPEARS: Although -- and before they did that, Genworth was the highest rated mortgage insurance company. Even after they did that I think they are tied --

MR. McMANUS: Second.

MR. SPEARS: -- they're second. So of all the mortgage insurance companies, they're still rated, you know, in one of the highest of the group.

The way it impacts CalHFA is, as you will recall, 35-percent coverage on our single-family loan portfolio is -- is the primary coverage. On that 35-percent coverage, 75 percent of that risk is laid off to Genworth. So when Moody's completes our calculation and they put up there the whole loan risk, they give us credit for what they think Moody's -- or, I'm sorry, Genworth will pay us on those claims.

In the past, before that downgrade, they would give us one hundred cents on the dollar of credit. After the downgrade, because of the rules that they have that at certain levels of credit rating for the MI they started giving less and less credit, so they only give us 25 cents on the dollar at the rating that it is now.

So the capital charge for that risk just went up, and I can't tell you how much but it's significant, as you can imagine, going from a hundred cents on the dollar to 25 cents on the dollar. And that's how it impacts us. An upgrade of Moody's would start to move that up from 25 cents to 50 cents to 75 cents to a full credit.

The first thing that we asked for of the federal government through our national association was a backstop for Genworth for state HFAs -- for home loan states that rely on mortgage insurance, have a federal backstop for whatever they might not be able to pay.

I would note this, by the way, that in Moody's write-up of the downgrade, they said, "By the way, we don't really think that this will impact Moody's ability -- Genworth's ability to pay claims. Even though we're downgrading their credit, we don't believe that they will have a problem paying claims."

MR. GILBERTSON: Steve, I put up one of the slides from the later presentation, but it does kind of quantify the Genworth exposure in one respect.

MR. SPEARS: That's true.

MR. GILBERTSON: The second line shows the -- what we believe the Genworth loss reserve should be for the insurance or the reinsurance they provide on our loans today. So as of March, we believe it would be a little over a hundred million dollars.

So if they were to fail, Mr. Shine, then that would --

MR. SHINE: At a hundred cents on a dollar, it's 102 million?

MR. SPEARS: Yes.

MR. GILBERTSON: Yeah, as of March --

MR. SHINE: So if it's 25 cents on the dollar, then it goes from a hundred million to 25 million?

MR. SPEARS: That's all they're giving us credit for.

MR. GILBERTSON: We would have to absorb the difference between the 25 million and the hundred million.

MR. SHINE: Is the downgrade reflected on this chart?

MR. GILBERTSON: No, these are actual expected loss reserves that they would have to pay.

MR. SHINE: The real world.

MR. GILBERTSON: Um-hmm.

MR. SPEARS: That's the real world. That is Genworth's --

MR. GILBERTSON: These are real delinquencies.

MR. SHINE: Okay.

MR. SPEARS: That is Genworth's contractual obligation to pay based on the delinquencies we have today.

MR. SHINE: And Moody's has downgraded them even though Moody's says they can pay anyway. And then once it's downgraded, that has an impact on us that we have to deal with in our dealings with Moody's, right?

MR. SPEARS: Yes, sir, that's correct. I understand how you feel.

MR. GILBERTSON: We live that every day, Mr. Shine.

MR. SPEARS: That's right.

When Bruce and I -- and one of the things I wanted to let you know, since the last Board meeting, Bruce and I made a trek to Washington, D.C. We took our case to a number of different people. We met with the national association, the NCSHA. We let the Governor's Office know while we were there what we were up to, and they offered their help in any way they could. We met with the Treasury Department. We met with Seth Wheeler. We met with both Fannie and Freddie, and we met with the FHFA director, the conservator of Fannie and Freddie, James Lockhart, and his senior staff just -- for about an hour and 20 minutes, just talking about CalHFA.

They were trying to understand the whole state HFA thing, but they understood that we represent a lot of the things that are going on piecemeal with a lot of the different HFAs around the country. So we thought this conversation would be valuable.

In that conversation we asked about the mortgage insurance companies. And although Mr. Lockhart was very attentive and listened very closely, the only time he spoke in the meeting was when this issue came up, and he said, "I'm working on that issue myself." And what he told us was that his objective was not to get them upgraded, that they didn't think that they could endure that kind of pain from the federal government. Their objective was to find a way to help them enough to stay in business and pay claims.

MR. SHINE: But they wouldn't work toward the upgrading or the rating of them, just the ability to pay?

MR. SPEARS: That was what we -- I believe that we heard and I think, Bruce, you --

MR. GILBERTSON: I don't think -- the federal government doesn't want them to default on their obligations, but they don't want to provide such levels of capital support that their ratings would go back up to where they were historically. And this is all about reality and ability to pay claims and the theoretical assessment of credit quality and if you're taking credit exposure to Genworth, how much capital should be in reserve if they're going to have a Double A rating, for example, versus a double B plus, which is kind of where they are today.

MR. SHINE: Thank you.

MR. SPEARS: Other questions?

As soon as we find something out and can analyze it -- you're going to have to give us a little time because I think if we just sent you a fact sheet on the package, I'm not sure it would make a lot of sense to you. So we'll get it, take a look at it, and send something out to you as soon as possible. And then we'll have to assess the need for a meeting or not, and I'll get together with counsel here at the table and figure out what's necessary.

So if there are not further questions on item 4, we'll move to item 5.

ACTING CHAIRMAN CAREY: All right.

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Item 5. Discussion and update regarding the Agency's financial strategies and action plan

MR. SPEARS: So I've asked Bruce and Tim if they would give us a market update and an update on our financial strategies. I've asked Chuck in this section to give us an update on -- as soon as his phone is answered -- for Chuck to give us an update on the single-family portfolio delinquencies. And we've sliced it a lot of different ways than you've seen before. I think it will be very interesting for you.

And then I've asked Lori to come up at the same time, and at the back end of this presentation we have completed the first six months' financial statements and a summary. We put a draft of those financial statements in your report section. I'm sure you've poured over those in detail and memorized all the numbers. We'll just give you a summary.

So without further ado, Mr. Gilbertson.

MR. GILBERTSON: Thank you, Steve, Members of the Board.

We've discussed this so many times I'm sure you're probably tired of hearing me talk, but we'll go through kind of similar slides. Some of the slides look very similar. They're updated to current information.

The first couple slides really deal with the municipal capital market, where are they, are they performing, and what -- what could an issuer like CalHFA expect to achieve if we were to go to the bond market.

So what we're finding is that there's limited participation from institutional investors when they consider the purchase of housing bonds. Most of the financings that are getting done are driven by the retail investor, individuals in-state that want tax-exempt securities for both state and federal tax. Most of the issuance is limited to single-family transactions.

In the multifamily space there are challenges with tax credit investors and things like that that are all subordinate financing and equity aspects of the overall financing for an affordable rental housing property.

Two recent examples of single-family transactions are shown here. The Tennessee HFA issued a bond recently. The longest bond was a 20-year bond. They sold it to yield 5 percent. All of the bonds were sold to retail individuals, retail investors. Ohio issued a 30-year bond recently at a five-and-three-eighths, 30-year level. Again, all the bonds went to, you know, retail investors, rather than having money market funds or insurance companies or what we would consider institutional investors buying those.

If you compared the borrowing cost, the cost of funding, from these programs to what Freddie Mac has recently reported in their national survey of mortgage interest rates, you find that there's going to be a gap. The most recent survey from Freddie Mac showed that the national average 30-year mortgage loan was set at 4.84 percent compared.

Remember, embedded in the loan rate or the note rate is compensation for a loan servicer. Typically that's 25 to 30 basis points. So the effective passthrough yield from the borrower's mortgage is closer to 4 and a half percent. So it's hard to run a program these days if your cost of borrowing has bonds at levels of 5 percent or 5 and three-eighths if you can really only expect to achieve 4 and a half percent on the mortgage coupon.

Turning the page and looking at the variable-rate bond market, as you know we have a lot of exposure to floating rate securities. 3.8 billion of these are these variable-rate demand obligations. Over time since, you know, the big event last September, liquidity and credit concerns have abated somewhat.

We're now faced with some other challenges because of what we refer to as yield compression. We're in such a low interest rate environment that the historical relationships between a tax-exempt rate and a taxable rate are compressed upon one another and the normal relationships of 65 percent, a tax-exempt bond yielding 65 percent of a taxable bond, are distorted significantly.

We thought one way to share that with you was to show you what -- a recent reset of the SIFMA index. SIFMA is really just the tax-exempt weekly variable-rate or floating rate security index. It reset at 47 basis points two weeks ago. By comparison, Charles Schwab's California tax-exempt money market fund has an expense ratio of 45 basis points. So if they were only purchasing bonds, municipal securities that were right on top of the index, where they should be, they would have little to no yield to pass through to their investor.

So we believe -- and we've talked to Charles Schwab in this regard. They're looking for bonds that have slightly higher yields. We'll call them storied bonds, if you will. And we have a lot of those in our portfolio. We've talked about this over time. We have depth of securities. We have Dexia-backed paper that has insurance that isn't a bond that the general marketplace would really desire, but to pick up additional yield, they will sometimes buy these so that they have yields they can pass through to their money market investor.

Continuing on to the last bullet on this page, it just lays out the relationship between LIBOR and SIFMA. LIBOR represents the taxable variable-rate index, and SIFMA would represent the tax-exempt index. One month LIBOR on that same date in May, May 6th, was at 39 and a half basis points, which produces a tax exempt to taxable ratio of 119 percent. So the investor that bought a SIFMA index bond is receiving 119 percent of the taxable interest they would have received if they had selected a federally taxable index. You can see that that's a dysfunctional marketplace. You receive less yield for a tax-exempt investment.

One of the things that that causes is what we call basis mismatch. You've seen this chart before. It's in every Board report that we do on the variable-rate exposure of the Agency and our swap exposure.

Let me define for you quickly again what basis mismatch is. It's the difference between the interest rate that we pay to our bondholders who invest in our floating rate securities -- the VRDOs, the auction-rate securities -- and the variable rate that we receive from our swap counterparties and the contracts that we entered into with them. So we typically receive 62 percent of LIBOR as the hedging ratio in an awful lot of our interest-rate swap contracts, but when we're paying 119 percent or higher, then we develop this mismatch.

So this chart has gotten worse over time. We thought -- the year represents a period from August 1 of each year, one of our debt service dates, to July 31st of the next year. So the 2008 time frame was August 1, 2007, through last July. We had in the aggregate 30 basis points of mismatch that represented almost $50 million to the Agency of increased interest expense.

From the period of August 1 of 2008 through

April 1 of this year, it's grown to 125 basis points. It's grown for several reasons. We have failed auctions. We had an awful lot of bank bonds back in October and November. You've seen slides, and you'll see -- you'll get a reminder of that in a moment, $1.2 billion of bank bonds at that time. We've whittled that down to something less than $400 million today, but irrespective, we're still experiencing an awful lot of basis mismatch. We've quantified it at one and a quarter percent or 125 basis points. And for that eight-month period of time, it's already equal to $30 million for the period.

I think I misspoke earlier. I said $50 million for the year. That's the cumulative basis mismatch from when we started this strategy through July 31 of 2008. I apologize if I've confused you.

Here's our bank bond chart. It shows the almost $1.2 billion of bonds that we had in early October. It shows the success we had between October, November and February 1 of 2009, where we got down to a point where we had $130 million of bank bonds. It's spiked up a little bit in the last few months. It's been down again here in May, and I saw a note yesterday that we had another $21 million of bank bonds that were successfully remarketed.

The significance of all of this is that it's very important for us to try on two dates a year, February 1 and August 1, to have no bank bonds in our home mortgage revenue bond indenture because it effectively allows us to access any accumulated excess revenues that may be available in the indenture to help pay swap settlement payments and other obligations of the Agency.

We do have some successes. It's, you know -- so we had some successful renewals with the standby bond purchase agreements, which is the liquidity support for the variable-rate bonds. In March, KBC Bank agreed to renew a $65-million facility.

These -- because of the awareness of the marketplace, that the federal government is trying to provide assistance especially as it relates to liquidity facilities to the state HFAs, many of the banks are willing to provide a short-term extension. They range from three months to a year, most typically probably three to six months.

We also were successful in the negotiations with Bank of New York for a $25-million facility in April. JPMorgan and Fannie Mae both also agreed earlier this month.

The only unsuccessful situation we faced was with Calyon Bank. In April, after considering their options, they decided not to extend, so $174 million of VRDOs became bank bonds, and that's embedded in this chart on the prior page. I just flipped back. It's -- effectively it's the -- I guess that looks like green -- the green bar that is shown, the top colored bar on that slide.

So we have some other renewals that we're facing. BNP Paribas is one of the banks that we're negotiating with. We believe we have an agreement with them, and that will be completed before the June expiration date. And then we have a renewal in July for $120 million of liquidity with Fortis Bank. Interesting thing there is that BNP effectively owns Fortis these days, so we think we'll be successful there as well.

The other thing that we did -- and there's a Board report in the back of your binder today about this $50-million private placement that we completed in early May. This was really an opportunity for us to enhance the liquidity position of the Agency. If you remember, in December we lost our warehouse facility with the State of California through the Pooled Money Investment Board because of some of the challenges the State of California faces. Effectively that line was frozen. We had to then honor the commitments we had made to borrowers to purchase their loans with Agency liquidity.

This was an effort we went to the capital -- didn't go to the capital markets direct. We went to a bank and negotiated a private placement so that we could fund those loans with borrowed capital rather than our own Agency resources. So it was net play of a $28-million increase to the Agency's liquidity position.

You've seen this slide before. We've updated it now through May the 1st. It shows all of our debt outstanding in relative terms. It's color coded so that the red, the blues and the dark reds are kind of bonds that aren't exactly performing as we had hoped. The green and black numerals represent bonds that are performing better, although one could get into a lengthy debate about relative performance, I think.

Bottom line is we have a little over $8 billion of bonds outstanding that we're hopeful that the federal assistance package will help us in many respects with all the color coded numerals. The auction-rate securities would be addressed, poorly performing VRDOs, and certainly any of the VRDOs that are in bank bond mode.

Thought we'd introduce this slide again. You've seen this. Again, this is the totality of our interest-rate swap exposure to a variety of counterparties. We have $4.2 billion of fixed payer swap notional outstanding as of May 1st, an additional 277 million of basis swaps, for a grand total of $4.5 billion. And the aggregate mark to market on those contracts as of May 1st was $357 million to the Agency, meaning that if they were all terminated as of May 1st, we would owe our counterparties a payment of $357 million.

With that, I think it's time to talk about the portfolio. I think Chuck and Lori are going to join me up here.

MR. McMANUS: Thank you. I'll begin on page 9 and just try and hit highlights for you on the delinquency figures and then -- they sort of roll together, so at the end I think we can talk about it.

On page 9, you can see that the FHA and VA have very high total delinquency ratios. The Agency is a hundred-percent protected on those, so they are not a threat to our financial status.

If you drop down to conventional loans with MI, you can see we have a 13.95-percent delinquency rate. And of that, we have 8 percent of the portfolio is 90 days plus, which is a probability that they will go to foreclosure and claim.

Those originated without mortgage insurance, which means they're 80 percent and under, have a 4.71-percent delinquency rate. And the MI cancelled means that the loans became less than 80 percent of the value of the property. The value of the property basically increased. And they have a 3.66 delinquency rate.

MR. SPEARS: And just as a note, that disparity right there, between those categories and the 13.95 right above it, leads me to believe that a lot of people are becoming delinquent, walking away from their homes because they're upside down, not because they can't make the payment, they are upside down and they just don't want to be in that situation anymore.

MR. McMANUS: Okay. If we could go to page 10, I'd just point out three numbers to you. In the top 30-year level amortization group, the conventional with MI, you go to the far right and you see a 10.21-percent delinquency rate. Down beneath it in the 40-year level, the conventional with MI is 12.43-percent delinquent. These are fixed payments. These are not exotic. There's no adjustable anything. But these are the -- our loan payment because of the 40-year amortization period, and we still have a 12.43-percent delinquency. To me, the major cause, this product started in 2006, peak prices in the marketplace. These borrowers bought houses whose value then dropped 30 percent over the next two years.

And finally down under the five-year IO for interest only, you see an 18-percent delinquency rate in the conventional with MI. And if you look to the left, the 90 day plus is at 11 percent. Those loans are highly unlikely to cure unless we can do a modification. So, again, that product started in mid-2005, so it is -- was originated at the peak of the house prices, and that leads to people not having a way to stay in the house. They can't borrow against it. It's underwater.

If you go to page 11, I just will confirm that 2006 theory. Under 30-year level up at the top, if you go to 2006 and go to the far right, you'll see a 9.25-percent delinquency rate and above it 2005 -- this started in the middle of 2005 -- you have 8.85 percent. So these -- just the timing of when people got loans is driving their behavior as far as staying in the house.

The 40-year level, one of our lowest priced products, has a 22-percent delinquency rate. That is a fixed payment, the lowest payment we can give people, and no changes, and it's still got one out of five delinquent.

And finally down under the interest only, you can see 2006 is the peak at 20.94 percent, 2005 right behind it, and 2007 at 15. So we just have a big batch of loans that all of a sudden are underwater, 25-to-40-percent underwater, and it's being reflected in their delinquency behavior.

My final page is 12, I think. No, it's almost the final.

On page 12, we look at where are these delinquencies the worst. I'd recommend you take a pen and make a little arrow by the ones I'm going to mention to you. The top one is San Diego at 12.51. Drop down four to Sacramento at 12.66. Drop all the way down to Riverside, No. 8, at 12.94. And No. 10, San Bernardino at 18.81.

It starts in San Diego. It goes into Riverside and San Bernardino. And then there's a real bubble that burst in Sacramento. So those four counties are major issues for us.

MR. SPEARS: The difference between the San Diego and Sacramento count is that we have higher volume, so that's a problem. I think, again, the reason why you see a lower volume in some of these other counties, down in San Bernardino, Tulare, Kern, San Joaquin, those all -- our customers got taken away by subprime lenders, and it's fortunate for us now, it's unfortunate for them, but I think that's the reason why you see smaller numbers down there. If we had -- if we had, you know, San Diego type numbers down, you know, in these other counties, we would be in a much different situation.

MR. McMANUS: But there are concentrations of where we have high delinquencies leading to high foreclosure in inventory. And on the inventory, I can tell you in San Diego we have 69 properties; in Los Angeles 16; in Sacramento 37; down in Riverside 35; and San Bernardino 18; and -- which is not on this list, but Imperial, which is east of San Diego, so it's all there together with Riverside and San Bernardino, we have 15.

So we have a real glut of REO, real estate owned, in the San Diego and adjacent counties, a concentration of our REO, then a big spot in Sacramento. So those are where we're very busy trying to repair and market the properties.

Finally on page 13, we look at servicers. And we've had a lot of discussion. We have three major servicers: CalHFA's in-house loan servicing, Guild, and Countrywide. And the total delinquencies you can see on the far right at 10.52, 13 and 13. We are closely monitoring the behavior.

Right now Countrywide doesn't seem to be getting the cures. They're an extremely large company and servicing operation, and they're professionally run. I mean, they're very responsive and know what they're doing, but we're not getting the cure results from them. And we've compared the three, and they come out the worst, and CalHFA and Guild are pretty similar in their results so far in curing.

The rest of the delinquency facts can relate to how seasoned the book is, how seasoned the book of business is. So if you've got an old book, it's going to perform well. And we have an old book at CalHFA. We've got lot of loans from a long time, so -- but we're very -- working very closely on the loan modification program with these servicers on short sales where people can get out without tarnishing their record too much, and so it will be a focus for the next two years.

ACTING CHAIRMAN CAREY: Ms. Gay.

MS. GAY: I was trying to wait. I'm going to always have just a little bit of trouble when I hear low to moderate income families kind of boxed in to similar response patterns on servicing. Are we talking to the customers on our service platform at CalHFA, actively reaching out, having conversations?

MR. McMANUS: Steve, do you want me to answer or do you want to?

MR. SPEARS: To servicers or borrowers?

MS. GAY: Borrowers.

MR. McMANUS: CalHFA servicing. She's asking about CalHFA's.

MR. SPEARS: CalHFA servicing, we speak directly to borrowers, work with them on their monthly budgets, try to find surplus, try to find a way for them to rearrange their financing, enter into agreements. Some of them are successful, some not, but we deal directly with them.

MS. GAY: Okay. Let me ask a question. When you were mentioning about people kind of not paying because the valuation of the property is down, have you broken that out geographically in your conversation with both servicers and customers? And what I mean by that is what most of us see throughout the state is variation based on -- you know, if you're in Palmdale, this is a very difficult conversation. It's not a won't pay, it's a can't pay, versus a San Diego which might be a won't pay. Do you follow me?

MR. McMANUS: Yes. And, quite honestly, until we announced our loan modification program, we didn't have a lot to offer people.

MS. GAY: Right.

MR. McMANUS: I mean, we -- the only thing we could do was capitalize delinquencies and pay us back over 18 months.

We now have what we think is a proactive loan modification program. The underwriting, you will be pleased to know, it is not standard underwriting. It is a cash flow developed with loan counseling helping, and it's cash flow. And if it can generate a $200 surplus in your monthly cash flow after settling with your short-term creditors and what we can offer in interest rate reductions, extension of term, if you can -- we can get it to there and we have a willing borrower who wants to modify, then they will be approved for a modification program. And the payments will be the same for three years, and then they will step back up.

MS. GAY: Graduate back up.

MR. McMANUS: So that has just been sent out there, and the first step is to get them to loan counseling. I mean we're requiring homebuyer counseling for all of the candidates because they need to understand their cash flow, and then we will work with them. And we've trained them, but this has just really gotten out to the servicers now, and --

MS. GAY: Right.

MR. McMANUS: -- we'll know over the next three months if we're going to be able to modify a lot of loans.

MS. GAY: Thank you. I ask those questions because we see that across the country, servicers are just now starting to get it and it's been a while. But they're just now starting to get it, and with the making home affordable plan, they've got to get a whole new plan. So given fixed-rate product, I was asking because I was curious, very different than the adjustable business, you know. And so if someone stops paying and it was something they could really afford from the beginning, then usually the thought is that either they've lost their job, there's been some life change. And so I just want to put that on the record because I think it's important.

And I think it's also important to say there is a notion of my home's not worth as much so maybe I can walk away, but that's -- that's not typically what most of us who are in this business have been seeing.

MR. McMANUS: Yeah. Our goal is not to help the people that are looking for an economic mark my house down to half because that's all it's worth. It's those that have had a hardship, and we'll work with them if they've had a hardship.

MS. GAY: Good.

MR. McMANUS: And that's our step one, is to verify that there has been a problem and then we'll work with it and make cash advances.

MS. GAY: Thank you.

ACTING CHAIRPERSON CAREY: Go ahead.

MR. SPEARS: The comment that I made about borrowers being underwater is strictly anecdotal. I'm starting to talk to at least one a week because they want to talk to the person in charge. And I talked to an individual in Lancaster, teaches for the L.A. Unified School District, wants to do the right thing, doesn't want to walk away from the house, but asked me, "Why should I stay in this house? Why should I keep making my payments?"

MS. GAY: It's out there.

MR. SPEARS: And it's out there. Up to this point, we haven't had any good news about home prices bottoming out and coming -- I've instructed staff as soon as we start hearing anything that's of any kind of word of encouragement, I think we need to go on a full-out campaign to emphasize to borrowers, "Stay in these homes. Make your payment. This is an asset that can turn around. And, you know, if you walk away, that's on your record and you're out of this for whatever period of time," and there's some disagreement. I think it's seven years.

"So think of it this way: In seven years, you stay in the house, make your payments, seven years where do you think that house value is going to be at that point down the road? You'll be way better off. Don't do this." And just hoping that they will stop and think before they mail us the keys.

But I'm not -- it's all anecdotal, though.

MS. GAY: Well, I don't think you can start that messaging too soon.

MR. SPEARS: Not quite.

MS. GAY: You know, it's -- I'm going to just encourage you about that.

And then I think the other side of it is when families are paying for loan modifications, they could be paying you. And so it's that simple. People are spending -- one in three of our customers -- we see 2000 people a month just in L.A. County -- are paying three to ten thousand dollars for a loan mod. I look at that and they need to pay CalHFA. You know what I'm saying? It's just there's nothing to discuss there. And so I think that families are confused, many of them. And so clear messaging from this Agency and any other servicer, I think, is relevant now versus later, if you can do it.

ACTING CHAIRMAN CAREY: Thank you.

MS. HAMAHASHI: Okay. We'll go over the slide on page 14. This slide was developed to show you the reserves for both the Insurance Fund and the Housing Finance Fund, along with the estimated Genworth portion of the loss reserves. Because of the 35-percent MI coverage in the Insurance Fund, there is a GAP insurance loss reserve set for the other 15 to make up -- to come up with the 50 under the indenture. And of the 35 percent that's reserved in the Insurance Fund, 25 percent is what we book, and the other 75 is the risk that Genworth takes.

So if you look at the numbers for December, right now we have -- the Insurance Fund loss reserves are set at close to 26 million. We're estimating that Genworth loss reserves are 76.6. The additional 15-percent GAP coverage is close to 45.

We also have a loan loss reserve on delinquent loans, and this is estimated losses not covered by either the primary MI or the GAP.

So the last line item in there is the REO, the market value adjustments for the properties that we currently have in our portfolio.

So the total that we have for December '08 is 163.7. This is about a $45-million increase from September. And using the delinquency reports that we have for the period ending in March, we show that at the end of March we will be increasing the reserve up to

222 million, an increase of a total of 60.

MR. GILBERTSON: So I think the point with that is that we're actively reserving as we experience and see the delinquencies develop. Of course, we don't know the end game. You know, these are reserves. Hopefully we won't have to pay all of this out, but time will tell as these things evolve.

MR. SPEARS: This is a combination of accounting reserves and contractual obligations. The Genworth line, that's their contractual obligation to step up and pay claims on delinquencies that we see right now. These reserves, this is not mark to market. We don't go to the $6.5-billion portfolio and mark it to what -- if we sold it off today what it would be. Those are accounting reserves.

The capital reserves contained in our fund equity, $1.7 billion has capital reserves that we have for losses that come up in the future for loans that become delinquent in the future. And we gradually pull out of that fund equity into these accounting reserves as those losses -- as those delinquencies materialize down the road.

So it's a little confusing. We don't have to mark to market because we're not an investor. We hold these loans to maturity, but I just want to make sure you understand that these are what the accountants do.

There's no question that in our $4.4-billion conventional loan portfolio that we will have more delinquencies roll forward in the future. No question about it. And as you can see, we went from 118 million to 163 to 222 for accounting reserves, and those will keep going up and keep getting hit along the way.

I -- you know, this is what the battle is with Moody's over our real estate risk. How much do we have in our capital reserves to -- to withstand future losses. And we believe that we have adequate reserves to do that.

ACTING CHAIRMAN CAREY: Mr. Shine.

MR. SHINE: So you're saying that the 222 million that you estimate that we have as of now is a floating number from which you deduct losses you have to take care of and add in terms of how much you put away each month to increase the reserve account. Is there any particular goal level that you have in mind for the 4.3 million, whatever it was, $4 billion-300 million, the 222 million of reserve? Because the focus seems to be on our reserves and our ability to withstand loss of value and having to come up with the money. 222 million on a $400-million thing, that's pretty darn good, I think.

MR. GILBERTSON: It's 5 percent.

MR. SHINE: Well, yeah.

MR. GILBERTSON: That is good.

I think what we got to remember here is we don't -- we don't reserve for the portfolio. The reserving that's going on here is based off -- and Chuck should probably walk you through at a high level how the reserve calculation is done for the Insurance Fund, for example. He's looking at the stage of delinquency for various borrowers. He's looking at the year of origination to determine what the frequency of default as well as the severity of the loss will be and comparing that to the obligations that he has as the primary mortgage insurer on those loans.

And so the similar thing is being done for Genworth and then the GAP policy as well. But again, it's not portfolio-wide. It's what we see today as far as an expectation for borrower performance based on the status of their loan payments.

Chuck, do you want to add anything to that on reserve methodology?

MR. McMANUS: Yeah, the key concept is we're reserving for loans that are delinquent today based on our pretty good guess on which ones will end up in foreclosure and result in claims, and we have enough money to pay all of those claims.

In addition, we take in premium on the insured business going forward, so there will be income to pay some of the new foreclosures coming in the future. And so, you know, there's even some good news. If the thing turns, we all of a sudden make money, rather than losing money.

MR. SHINE: Am I correct in looking to see there's 222 million of reserves set aside for a loss of about 10 percent of -- about 430 million of problems; is that right? You have a 9.82 percent of 4-billion-three. Am I looking at this right? On page No. 122 or your page 12.

MR. GILBERTSON: If we go I think here --

MR. SHINE: Am I off a zero or -- I don't think so.

MR. GILBERTSON: I think what you're suggesting is that we have 4.3 billion of conventionally insured loans, which is where the risk is, and there's a 9.82-percent delinquency ratio at 228. So if we make the math simple, 10 percent would be 430 million, and we have reserves of 222 against that.

MR. SHINE: That's not 5 percent, that's 50 percent.

MR. GILBERTSON: Yeah, that -- exactly. I was doing it on the full 4.3, so I think that would be -- if we reserved against the whole portfolio, then it would be 5 percent, but it's a 50-percent reserve on the delinquent loans.

MR. McMANUS: It should be even more than that. If you remember when we went through the reserve calculations, at 60 days delinquent I have 70 percent; at 90 I have 80 percent; and at 120 I have 90 percent. And I have it at full claim. I have the full coverage marked up.

MR. SHINE: But the average between that 30 days and 120 days when you put it all into one basket is around 10 percent, 9.82 percent.

MR. McMANUS: Well, remember, our coverage -- yeah, okay. Because our coverage is only 35 percent, but you're not going to lose the whole amount of the mortgage. You're only going to lose some off the top.

MR. SHINE: Right.

MR. McMANUS: I mean --

MR. GILBERTSON: There's property and improvements. There is some value there.

MR. SHINE: I'm fine with it. I just wanted to make sure that I'm understanding what you're telling me.

MR. McMANUS: Yeah.

ACTING CHAIRMAN CAREY: And you do.

MR. SHINE: I think so.

ACTING CHAIRPERSON CAREY: Good.

MR. GILBERTSON: One more?

MS. HAMAHASHI: Okay. If you turn to slide No. 15, this slide is summarizing our financial results for December 31st. And what we did was try to summarize the items that directly impacted the net income the most to come up with our results for the quarters.

In the first quarter, we had a GAP claim payment reserve increase of 25.2 million, and this is, you know, the change for the quarter. And the six months is the total of the two columns.

As far as the indentured loss reserve increase, that went from 3.8 in the first quarter to only 1.8 in the second quarter.

The next item that we had that impacted net income was the basis mismatch. And I know that Bruce went over his slide and briefly explained that this was the difference between what we actually paid to the bondholders on our variable-rate securities versus what we actually received from the swap counterparties. So in the first quarter it was $9.3-million difference, and in the second quarter it was 13.

As far as the swap termination payments, what we did was -- Bruce?

MR. GILBERTSON: Yeah, I'll cover that quickly. You may remember that back in September Lehman Brothers, who was one of our swap counterparties, filed for bankruptcy. That led to the situation where we had to terminate $480 million of swap-related contracts. We did that in November.

If I remember the numbers approximately correctly, we paid $42 million to Lehman Brothers to get out of those contracts, and we negotiated with two new counterparties, Goldman Sachs and Deutsche Bank, to replace about $280 million of the swap exposure, and they paid us approximately $28 million. So there was a net termination payment or an expenditure that was reflected on these financials of $13 million for the Lehman Brothers transaction.

The additional 2 million that is on here is we go through a process every six months because the swap contracts and the bonds outstanding don't amortize exactly correctly over time because there's a lot of variables, so we go through and terminate certain amounts of swaps as we need to try to keep the hedge position in the proper alignment. It's explained in a Board report in narrative, if you'd like to read that at some point.

MS. HAMAHASHI: Okay. The next line item is our other operating results, and what we show here is what, you know, we actually made during the quarter had it not been for the items up above. We are going to be reporting our -- a loss for the quarter ending 12/31 of 48.9. And for comparison reasons, we wanted to show that in the same quarters in the '07/08 fiscal year, we had $11 million in the first quarter and 11.5 in the second, earning about 22.5. So we're actually a little bit ahead of what we did back then if we were not looking at the items above the other operating results.

MR. GILBERTSON: So maybe I can try to put a positive spin on this a little bit because --

MR. SPEARS: If you --

MR. GILBERTSON: -- it's always nice to put a positive spin if there is one.

MR. SPEARS: If you don't, I am.

MR. GILBERTSON: Okay. I think what I would focus on is the other operating results line. The base business model of the Agency raising capital to finance the purchase of loans would have produced $16 million of net income to the Agency if there hadn't been these other disruptions. Remember, we have an $11-billion balance sheet. We have a lot of assets. So they're designed to produce a net income margin, a spread to the Agency.

We are in an environment where we're getting hit from all sides. Torpedos are coming from all different directions. We have it on the real estate risk, and we've covered that in great detail. We have to properly reserve for that. I think it's important for the Board to remember some of that is going to consume cash that we have because we have to honor claim payments. Some of it is just a write-down of assets.

If we owned the loan and through the insurance policies if we aren't fully paid and we end up selling it for less than we had it booked on the financial statements, it's a loss and the asset balance goes down, but it doesn't all mean it's liquidity. So we need to make sure that we're thinking along these lines correctly.

You know, the basis mismatch, it's -- there's the municipal bond market has not been kind to us for two years now. You know, hopefully the federal assistance will help us minimize basis mismatch. I don't think we'll ever be in a situation where the basis mismatch is going to go away altogether.

I think we should remember a couple other things. Swap contracts and bond contracts are entered in for a long period of time, but they don't last forever. And over time we do amortize our way through that as the bonds and swaps go away.

So I think there is a silver lining there, but certainly when you look at this the operating loss is $48 million. My guess is it will be larger as we go through the rest of the fiscal year. We hope at some point that it starts to level out and that we, you know, absorb the loss in this year, and maybe beyond it will become more positive.

MR. SPEARS: Because we held up on proceeding with foreclosures and that sort of activity as we were designing the loan modification program, I think the next quarter's increase in reserves will probably be more than last quarter just because we're going to be going through a backlog, probably giving some people some bad news and working through that. I think you will see the quarter ended March 31 with probably a little bit more in reserves, an increase in reserves, just because of that backlog.

ACTING CHAIRMAN CAREY: Heather. Ms. Peters.

MS. PETERS: Are you able to speak to projections of diminished income based on the fact that we put a freeze on lending earlier, sort of where are we going to see that and of what magnitude?

MR. GILBERTSON: No, not really. I think what we have is the one thing that we came out of a cycle in the real estate market of extremely high prepayment. You know, some of you heard us talk in 2004/2005 these huge amounts of loan payments, which was an environment where we did a lot of lending activity, but it went away very quickly. So our ability to cover our costs and to actually make a profit on that so that we could afford -- invest in other affordable housing programs was diminished because of the quick prepayment of the loans.

Here we're in an environment where prepayments have all but stopped. You know, I think the new form of prepayment we see is when insurance claim payments are made because of a borrower foreclosure.

So from that perspective, the income that we would achieve, the 16 million, is going to stay on and be available to the Agency for a longer period of time, but certainly we haven't really been able to handicap that in any meaningful way, Ms. Peters.

ACTING CHAIRMAN CAREY: Okay. Any other questions or comments?

With that, we are going to adjourn to closed session as the Board. Thank you.

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Item 6. Closed session under Government Code sections 11126(e)(1) and 11126(e)(2)(B)(i) to confer with and

receive advice from counsel regarding litigation

(The Board met in closed session from 11:29 a.m. to 12:14 p.m.)

ACTING CHAIRMAN CAREY: Okay. We are back in open session.

Item 7. Bruce.

--o0o--

Item 7. Resolution 09-07: Discussion, recommendation and possible action regarding the approval of one or more transactions to sell loans through a bond securitization program

MR. GILBERTSON: Okay. I'm going to start this and then I think we have Bob Deaner is going to join me, and we actually have some folks from Citibank that will be participating as well.

You've heard us discuss as one of the strategies that we've had over the last three or four months anyway is to do a fairly large resecuritization of a big portion of our multifamily loan portfolio. So this is referred to as the TEBS transaction, Tax-Exempt Bond Securitization. We're doing this together with Citibank and with Freddie Mac.

So we're going to go over at a high level the proposed transaction, some of the -- the current status, the benefits, the challenges that we have. There is an actual resolution in the Board binder today. We need you to take a vote on it. It basically gives Steve, as executive director, authority to enter into an agreement to move forward on this transaction, and as you'll find out through the course of the next 15 or 20 minutes, that there's lots of pieces that need to be thought through as we move forward in this transaction.

MR. HUGHES: Just I should -- it will probably make it easier if I throw in here that after discussing this at great length, what we decided we would do is to present this to the Board in two stages, if you will. The resolution that you have before you would authorize the Agency to enter into a nonbinding letter of intent to pursue this transaction, and the intent is we would come back later to approve, have you approve, a definitive agreement.

And the reason that we did that is that this is such a large and complex transaction, requires so much expenditure of time and money for due diligence and other things, that we wanted to -- and the parties want some assurance that there's a high degree of interest that we thought we would use the traditional way to do deals, a nonbinding letter of intent followed by a definitive agreement later.

MR. GILBERTSON: So while I have a moment, why don't I just introduce a couple other gentlemen that have joined me at the table here. To my right is Richard Gerwitz, with Citi, and at the end of the table is Doug Auslander, and of course you know Bob Deaner, Director of Multifamily.

So the transaction as we contemplate it today could be as large as $932 million involving 215 different properties throughout the state, approximately 20,000 units of affordable rental housing. All of these properties are stabilized. They've been in our portfolio for a number of years. Some of them are amongst the oldest loans the Agency ever made, some of the Section 8 portfolio that was actually originated, constructed and converted to permanent loans in the 1980s.

The transaction, as I mentioned earlier, does involve Freddie Mac, who's providing liquidity and a guarantee. It would involve Citi and their delegated underwriting license with Freddie Mac to do the reunderwriting of the property so that we can get the liquidity and credit enhancement from Freddie Mac.

Some of the benefits that CalHFA would achieve if we move forward with this transaction is that we would remove approximately a billion dollars of loans from our balance sheet.

Now, why is that a benefit? Well, the only benefit there, is that for the lending activity we do have, we do -- we have capital charges for various categories of multifamily lending. In recent months we've talked more and more about capital charges for the single-family loan portfolio, but it's not -- the same exact analysis occurs for the multifamily lending activity.

So they're looking at the strength of the property. They're looking at debt service coverage ratios. They're looking at loan to values. I refer to "them" as the rating agencies are doing this to come and assess a capital charge for the loans that we have on our balance sheet.

So we believe we'll get relief from some of those capital reserves by removing the loans. Certainly we have in our multifamily program both bank bonds and auction-rate securities. We would remove the pressure and the basis mismatch kind of caused by them being nonperforming.

Citi has agreed to provide kind of a bridge loan to buy the re-funding bonds that go into a trust. I'm going to try to keep at a high enough level because I don't think this is the Board meeting to get into the depths of the transaction. It's somewhat complicated, and you're going to see one slide here in a moment that I'm going to talk about briefly and then we're going to move on. If you want to ask questions, feel free to interrupt me.

And then CalHFA could become -- because we hope to remain the servicer of these loans and we have our asset management function under the directorship of Margaret Alvarez to continue to play the regulatory role on these properties and service the loans.

Current status is that Citi is preparing some initial bond terms and structuring analysis so we can really understand what the transaction looks like. Legal counsels are reviewing tax law and the compliance issues. This is kind of a unique challenge in this environment to kind of go through to make sure that we're fully complying with tax law and can get a tax-exempt opinion.

The economic benefit is the other element here that we need to fully understand what the economics would be to the Agency, and it goes hand in hand with the structuring and legal analysis.

Here's the chart. This is the TEBS structure overview at the highest level. We need to deliver tax-exempt bonds and loans into a trust or a partnership that has Freddie Mac in the middle of it. It has the liquidity support and the credit support. There will be more than likely variable-rate bonds issued out of the trust. They are not variable-rate bonds of CalHFA. Those bonds will probably be hedged with an interest-rate swap. CalHFA will not be a participant on the interest-rate swap.

Ultimately out of the trust then are -- two pieces are created, an A certificate, if you will, and a B certificate. The A certificate is going to be a money market eligible floating rate security that has a tax-exempt yield, be sold off into the marketplace as we've talked so often about our own portfolio of variable-rate demand obligations.

The B certificate is going to be the piece that has the additional yield, the yield above and beyond what is necessary to be paid to the floating rate bond investors. It also has a component of the loss, the risk associated with the real estate program. Those are parts of the structuring analysis that needs to kind of be finalized so that we can get a full appreciation of the benefits of that transaction.

I'm going to stop there and see if there's any questions, and then I think we're going to move on to kind of the underwriting process and what needs to happen to really get this project, this financing, underway. Any questions from the Board?

MS. JACOBS: I have one.

MR. GILBERTSON: Okay.

MS. JACOBS: You're talking about a seasoned portfolio here. Right?

MR. GILBERTSON: Um-hmm.

MS. JACOBS: How do you account for rehabilitation?

MR. GILBERTSON: There's no plans to rehabilitate the portfolio. These are loans that we've had in portfolio for a long time so we have replacement reserves. Margaret would be better -- a better person to talk about the quality of the properties today and whether or not they're in a state of repair. There is a PNA process you'll see on a subsequent slide.

MS. JACOBS: Okay.

MR. GILBERTSON: There will be a PNA assessment. There's going to be some challenges there if there's significant rehabilitation necessary to move forward because we'd have to figure out a way to finance that.

MR. DEANER: There's also a way we'll be working -- my group will be working with Citigroup, and I'm going to have Citi kind of go through the process in a second because they're really going to be doing the underwriting on behalf of Freddie Mac.

But as we go through the process and we look at the projects, if we find a project and some of the reports come back, we don't necessarily have to put it in the pool because of the -- because our loans are seasoned. So it's -- it's -- we're kind of looking at this as it could be as big as the 932 million, but it could be a -- smaller than that, depending on what projects kind of make the underwriting criteria because every loan is going to be reunderwritten to the Freddie Mac criteria via through Citi, which I have the background in 'cause I used to underwrite back in my old day to that. So I'll work closely with them to make sure that, you know, what we're looking at is what Citi's going to be looking at on behalf of Freddie Mac and that those deals make sense or don't make sense to go into the pool.

MS. JACOBS: Okay.

MR. GILBERTSON: Just one other thing I think that that conversation pointed out to me. There are several components to this portfolio, and again, as Bob said, not to exceed 932. There is a portion of the portfolio that is today not encumbered by bonds outstanding. So, you know, that may or may not be included. And if they were included, it would be a taxable TEBS transaction. It's going to be a little --

we're embarking on some new territory here. But until we take the next step on structuring and defining terms and analyzing, I don't think we have a lot of good answers for you today.

All right. I guess I'm going to turn it over to Richard.

MR. GERWITZ: Yeah. Just to reintroduce myself, my name is Richard Gerwitz. This is Doug Auslander to my right. We're both managing directors. We're both housed in the Los Angeles office. My focus is exclusively financing affordable multifamily housing, largely in California, but also across the United States. Doug's real specialty is he's on the structuring side of it. We're both in the municipal securities division.

So this is a very highly structured transaction, but ultimately what this is is a real estate transaction. And I would point out that this is -- this is a way that Citi and our predecessors have basically been financing our lending to afford -- the affordable housing community for the last number of years. In fact, I think we did our first transaction back in 1999.

And it's also the way some of the other competitors, the historical competitors of CalHFA, people like Centerline, people like MMA, who have been in this multifamily space, have financed their projects. They've basically position loans -- they originate loans, they position them on their balance sheet and ultimately they put them into the securitization structure making room to do additional loans. So this is a tried and true -- a tried and true structure.

And answering some of the questions that you had, Ms. Jacobs, is that this is a pooled financing. It's a portfolio financing, so, yes, while every loan is very important and the attributes of every loan are important, what we're looking at is the entire pool. And obviously some of the better performing assets will offset some of the assets that may be having issues, although to be honest with you, looking at the portfolio, it's pretty -- it's obviously a portfolio that's performed quite well and has been around for a long period of time.

There are ways of adjusting if we see problems in the portfolio where you increase that residual amount that -- that -- for its loss position or you decrease it, and that's something that we would discover over time.

But the only points I wanted to make was -- is that this is ultimately a real estate transaction. It does require a full underwriting and -- full underwriting and due diligence because Freddie Mac is going to provide credit enhancement and liquidity for this transaction over the remaining life of the portfolio. So this is not a situation where you're going to have a bank putting a letter of credit in for a limited period of time and has to be renewed. Freddie Mac is actually putting their credit on the line for the life of the remaining loans.

Citibank, this group, is a delegated -- a Fannie Mae delegated underwriter and servicer, what's known as a DUS -- a DUS lender. And we're also a Freddie Mac delegated risk sharing partner, one of only four in the United States. And we are, Citi is, the largest affordable housing lender in the United States, so we've been doing this for quite some time.

Not only do we have delegated responsibilities for individual transactions, which we do frequently, but this is the way, as I said, that we do our own portfolio. So after we've gathered all these assets over a period of time, we end up doing the same type of review we're going to do with CalHFA on our own portfolio again after this -- after the portfolio has been seasoned, before we put it into the tax-exempt securitization.

This is clearly going to be a significant undertaking given simply the number of assets that we're looking at, 200 -- over 200 assets is going to be a lot of effort, and fortunately we have a team headed by the gentleman whose name is on the screen, Hartley Hall, who's been doing this for a long time, and it is -- has been -- is approved by Freddie Mac to do this type of underwriting. And Hartley has, in fact, met with Margaret and other members of the asset management staff of CalHFA on some initial discussions to see what's going to be entailed.

And we work -- we have worked closely not only with Freddie, but with our own borrowers and borrowers whose loans have been put in this structure, so we understand that sometimes this can be a very sensitive process, and we will make every effort to make sure that the process goes very smoothly.

MR. DEANER: Can I say before he gets into the underwriting, one thing that I'd like to say from our group is obviously we're fully supported and have the staff to move the transaction forward, so I have a number of folks ready to go.

But also, this model going forward will assist CalHFA and the multifamily group. It may be a new model, business model, that we may utilize going forward to do new business 'cause Citibank has CRA needs and

CalHFA has lending needs, and this is a way where CalHFA wouldn't have to utilize their full general obligation to do a structure like this going forward.

So once we kind of get through this once, it may be a model that we may look at as a new business model through multifamily that we partner with Citi to pool these up and that ultimately put them into the TEBS structure where we limit the obligation of the Agency yet still have the capacity to lend.

MR. GERWITZ: I'm not going to really go through this in great detail. As we said, we're going to try to keep this on a high level, but to the extent anyone has any questions, please feel free to address them.

But certainly if you're going to do due diligence on any multifamily portfolio, the list you see here is a typical list that you'd be looking at. And these are things that we expect to have -- that we expect to be able to receive, to review, to analyze and to put into underwriting packages. Nothing very unusual here, rent rolls, operating information, ground leases, regulatory agreements, things that anyone who's going to be using this real estate as security is going to want to see.

Since it is on a portfolio basis, we get a little bit more latitude, and we've already started negotiations with Freddie Mac and a couple of the highlights just from those discussions are potential areas of flexibility. We've eliminated the need to get individual appraisals on every one of these properties, which would we consider to be significant. That is a typical requirement. We also don't need to get -- have mold assessments on each project.

We are going to need a PNA, a physical needs analysis, on every project. And the thought is -- is rather than having a separate mold person go and take a look, we're going to have the person who's doing the physical needs assessment go in, see if there's any obvious issues that need to be looked at in more detail. So it's things like that where we've been able to -- at least we've been able to make -- reduce the requirements of the individual property inspections.

Very importantly -- and the next area was labeled as a gray area, but actually it's pretty clear to us right now, is that Freddie Mac is a -- is very much a sponsor driven, a sponsor oriented, lender. It's very important to them who the sponsor of a project is. In fact, they have continuing requirements for what are bad boy carve-outs on any project that they do. We've basically been able to eliminate the need to get individual guarantor and sponsor information on each of these loans, which I think is a real significant concession on the part of Freddie Mac and will make our job that much easier.

The other thing they want to know is they want as much detail as possible about the tax credit investor and what the status of the pay-ins are. We're going to be able to use whatever data -- the data basically that we have on hand here at CalHFA to satisfy Freddie's need.

But you can see the threshold issue, the things we do need, are things like a physical needs analysis. We're going to do an inspection and lease audit. We're going to need original Phase I reports plus data drawdowns. Wood infestation reports are required on transactions ten years or older.

So these are things that we're working with your asset management people on to make sure that when we go in and do this, if we're going to go in and do this, that we do it without -- without upsetting the borrower, upsetting the project, and do it in a way that's as efficient as possible.

The last slide that we have is simply the list of due -- the outline of responsibilities. Quite frankly, this is Citibank's outline of responsibilities. So these are things that we'll be doing in order to put together underwriting packages that will ultimately be reviewed by Freddie. As you can see, it's quite extensive.

The process does take time and we -- and it does require third-party reports. And the goal -- we have some aggressive timing goals, which I assume we'll discuss at a certain point in time. And so it is a massive project on 200 loans. We'll probably -- we would probably start wanting to order third-party reports pretty soon and then getting into -- get into the underwriting process.

If there are any questions, I am happy to answer them.

ACTING CHAIRMAN CAREY: Questions?

MS. JACOBS: I have another question. I'm sorry to be awake in this part of the meeting.

Could you just give me a thumbnail on how you feel this is a CRA credit deal.

MR. GERWITZ: How I think it's a CRA credit deal?

MS. JACOBS: Yeah.

MR. GERWITZ: Well, it's a -- we consider it -- we have both. As a bank that has CRA requirements, we both have an investing -- a lending need and an investing need. An investing need is usually satisfied by buying tax credits. Actually, lately, we've been interpreting the purchase of bonds as an investing need. A lending need is -- a lending -- satisfying a lending requirement is on a 9-percent transaction if we would make a construction loan or if we would extend credit.

The way this is going to work is we actually are going to extend you credit to buy the re-funding bonds, which will then be put into the trust. It actually needs to go through us for a variety of reasons having to do with the structure, including the fact that Freddie's going to be looking to us to give reps and warranties.

MS. JACOBS: Right. I can --

MR. GERWITZ: So we believe that's -- you know, we have needs in various parts of the state, and that loan is going to enable us to call this a CRA, satisfying CRA.

MS. JACOBS: Right. It just seems that most of the things you described before actually are geared toward new housing production where this is not.

MR. GERWITZ: Well, we --

MS. JACOBS: So that's -- I'm just -- I'm talking not so much --

MR. GERWITZ: Right.

MS. JACOBS: -- as a CalHFA Board member --

MR. GERWITZ: Right.

MS. JACOBS: -- on that issue, but as the director of HCD.

MR. GERWITZ: Right. But of course acq rehab is -- we consider acquisition rehab to be -- also to be -- satisfy CRA needs, and that is not creating new housing as much as preserving old, preserving housing. This, again -- in our minds, this is also preserving housing. It's providing the Agency with additional flexibility to continue its mission. So to us this is -- falls right into -- it certainly satisfies our CRA.

MS. JACOBS: Okay.

MR. GERWITZ: And as you know, CRA is somewhat touchy feely.

ACTING CHAIRMAN CAREY: Other questions?

Thank you.

MR. GILBERTSON: There's a vote required, though.

ACTING CHAIRMAN CAREY: We have Resolution 09-07, I believe. I would be thrilled to have a motion.

MR. SHINE: Moved.

ACTING CHAIRPERSON CAREY: Mr. Shine.

MS. PETERS: Second.

ACTING CHAIRMAN CAREY: Ms. Peters.

Roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Ms. Gay.

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: No.

MS. OJIMA: Thank you.

Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

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

ACTING CHAIRMAN CAREY: Okay. We're moving onto -- and obviously there will be more opportunity for discussion on that issue as we move forward.

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Item 10. Discussion, recommendation and possible action regarding CalHFA's implementation of Section 114 of the Fair and Accurate Credit Transactions Act of 2003

16 C.F.R. Section 681.2, also known as the "Red Flag Rule"

ACTING CHAIRPERSON CAREY: Moving on to item 10 on the agenda, the Red Flag Rule.

MR. SPEARS: This is a small item that requires the Board's action by federal law. We at CalHFA already comply with a number of state and federal laws on privacy. This is an additional requirement that counsel has advised us that we need to be in compliance with. The general idea is that we need a system that red flags sensitive information when it pops up.

The clearest example is when social security numbers are included in an e-mail. We've already -- we already have a system to deal with privacy issues. This is an addendum to that, so it was easy to put this new system in with everything else. And, again, back to the example, we've already started notifying employees when they have social security numbers in an e-mail, which I thought might have a Big Brother impact on employees, but it had the exact opposite: Thanks very much, didn't even know it was buried somewhere in some document.

So it makes us more secure with regard to privacy information, and it is in compliance with federal law. Federal law requires that the Board adopt this policy, and that is -- that's the reason for the resolution.

If you want to know what the red flags are, you can look on page 138. They're identified on pages 138 and 139.

ACTING CHAIRMAN CAREY: Anyone care for further information or clarification?

We do have a resolution to adopt this.

MS. JACOBS: Move approval.

MS. PETERS: Second.

ACTING CHAIRMAN CAREY: Ms. Jacobs. Ms. Peters. Roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Ms. Gay.

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Thank you.

Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

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

MR. HUGHES: Mr. Chair, I just -- is the resolution in your package? Because I don't see it in this.

ACTING CHAIRMAN CAREY: Yes.

MS. JACOBS: It's in my package.

MR. HUGHES: Okay, then I take it back.

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Item 11. Report of the Chair of the Audit Committee

ACTING CHAIRMAN CAREY: Okay. We are on to item 11, and Mr. Smith has kindly agreed to report out for the Audit Committee.

MR. SMITH: Yes. The Audit Committee met this morning to review the California Housing Loan Insurance Fund audit, and I'm happy to report it was a very clean audit thanks to the good job staff is doing. And no action was taken, but I think we're considering it here.

ACTING CHAIRMAN CAREY: We -- so that concludes that. That was the annual audit of the Mortgage Insurance Fund.

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Item 12. Reports

ACTING CHAIRPERSON CAREY: Item 12. Are there any items to --

MR. SPEARS: There are no items to report discussion other than the fact that these reports were referred to at previous points in the discussion earlier.

ACTING CHAIRMAN CAREY: Right.

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Item 13. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: 13, other Board matters. Any Board members have anything to bring up?

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Item 14. Public testimony

ACTING CHAIRMAN CAREY: Item 14 is an opportunity for the public to address the Board on any matters. Is there anyone wishing to address the Board?

Seeing none, we are adjourned.

(The meeting concluded at 12:14 p.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 9th day of June, 2009.

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