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, January 21, 2010
9:33 a.m. to 1:16 p.m.

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Minutes approved by the Board of Directors at its meeting held: February 25, 2010

Attest: ____________

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

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A P P E A R A N C E S

Directors Present

PETER N. CAREY
President/CEO
Self-Help Enterprises

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

PAUL C. HUDSON
Chairman/CEO
Broadway Federal Bank

JONATHAN HUNTER
Managing Partner, Region II
Corporation for Supportive Housing

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

BARBARA MACRI-ORTIZ
Attorney at Law
Law Office of Barbara Macri-Ortiz

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

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

A P P E A R A N C E S

Directors Present (continued)

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

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CalHFA Staff Present

GARY BRAUNSTEIN
Special Advisor to the Executive Director
and
Acting Director of Homeownership

ROBERT L. DEANER II
Director of Multifamily Programs

KENNETH H GIEBEL
Director of Marketing

BRUCE D. GILBERTSON
Director of Financing

LORALYN HAMAHASHI
Deputy Comptroller

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Acting Director of Administration
and
Acting Director of Fiscal Services

CHARLES K. McMANUS
Director of Mortgage Insurance Services

JOJO OJIMA
Office of the General Counsel

A P P E A R A N C E S

Also Present

STANLEY J. DIRKS
Partner
Orrick

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BE IT REMEMBERED that on Thursday, January 21, 2010, commencing at the hour of 9:33 a.m., at the Burbank Airport Marriott Hotel and Convention Center, Pasadena Room, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: I want to welcome everybody to the January 21st, 2010 meeting of Board of Directors of the California Housing Finance Agency.

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Item 1. Roll Call

ACTING CHAIRPERSON CAREY: First order of business is roll call.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner.

MS. PETERS: Here.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Here.

MS. OJIMA: Thank you.

Mr. Hudson.

MR. HUDSON: Here.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Here.

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

MS. CARROLL: Here.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: 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: Ms. Matosantos.

(No audible response.)

MS. OJIMA: Mr. Spears.

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON CAREY: Great.

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Item 2. Approval of the minutes of the November 19, 2009 Board of Directors meeting

ACTING CHAIRPERSON CAREY: Next order of business is the approval of the minutes of the November 19th Board meeting.

MS. JACOBS: Move approval.

MR. HUDSON: Second.

ACTING CHAIRPERSON CAREY: Moved and seconded. Any further discussion?

THE REPORTER: I'm sorry, I didn't hear where the second came from.

ACTING CHAIRPERSON CAREY: Mr. Hudson.

MR. HUDSON: It was a weak second.

MR. SPEARS: He just came in from the storm.

ACTING CHAIRPERSON CAREY: We'll have a roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Not having been at the meeting, I'll abstain.

MS. OJIMA: Thank you.

Mr. Shine.

MR. SHINE: Abstain.

MS. OJIMA: Thank you.

Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: The minutes been approved.

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Item 3. Chairman/Executive Director Comments

ACTING CHAIRPERSON CAREY: Okay. A couple of comments to make before we lead on to Steve.

This is great. We've got a strong Board. It's nice to have virtually all but one seat filled on the Board. It's -- it's terrific. And the new perspectives and the energy the folks bring will be important to the Agency, I think, in the coming months.

I do, just on a very personal level, want to express one piece of frustration and that is that I'm concerned that the -- the perception is allowed to be seen out there that in the absence of permanent appointments for both the executive director and chair that there's a lack of focus on the Agency. And while the Agency is being run exceedingly well, I think that I'd like to hope that the Governor's Office would see fit to move forward with, at least in one case, making permanent the appointment that is now interim.

It's now been since December of '08 that the previous executive director left office, and it's been since July of '08 that the previous chair left. And it does feel like it's time for the Governor's Office to act.

With that, I'm going to turn it over to Steve.

MR. SPEARS: Thank you, Mr. Chairman.

Happy New Year to everyone. I think we can still say that. What was the rule that I believe Mr. Smith said? We have all of January to say "Happy New Year" to everybody.

It is really exciting to see so many Board members here. We are one shy. And I want to welcome Barbara Macri-Ortiz, our newest member.

There are some other Board changes I just want to mention briefly. I'm very happy to see Brooks here because I like to see that -- that continuity. There is some up-in-the-air, I'm not sure how to describe it exactly, about OPR and whether that person will continue to serve as a Board member at CalHFA. The OPR director, former director, Cynthia Bryant, has moved to be the new chief director and will be the person sitting here for Ana Matosantos, who is the Governor's budget director.

I spoke with Cynthia last night. We're going to put together a briefing for her, similar to what we have done with Barbara and Paul and some of the other new Board members. And she will attend in the future, as Tom Sheehy did. That position at the Department of Finance covers literally I think more than a hundred boards and commissions. It's an amazing responsibility, so -- but Cynthia understands the importance of being here at this time, participating in the Board meetings, even though it is a nonvoting position, and she would like to do that in the future, so that's -- that's good news.

Very briefly, the January meeting in the past for CalHFA has been the time when we call time-out midyear, how are we doing for business volume, that sort of thing. Obviously this year it's a little different. We haven't been lending. So we thought we would do two things. One is update you on the -- on the implementation of the federal assistance package. It's in place. We're going to do that throughout and then tell you the impact of that on business for the rest of the year.

And we'll probably focus on the rest of 2010 --

it's little early to tell business volume predictions and that sort of thing -- and then give you an update on our financial challenges that we've been facing.

With that, there's a bit of unfortunate news. You've all just been handed the latest decision from Standard and Poors on the mortgage insurance fund. And we've talked about that some more. We will probably talk about this a little bit more under item 4 in the closed session, but this is a public item.

They've just released the press release that downgrades the mortgage insurance fund to triple C minus and -- and that -- that means, according to Standard and Poors' definition, that the obligor is less likely to meet all their obligations unless there are improved business and economic conditions.

It continues on credit watch with negative implications. They're going to continue to watch the trend in delinquencies and claims reserves for the mortgage insurance fund and continue to review it on a -- on a steady basis through the rest of -- of the year. So we'll talk about that a little bit more.

The good news is that with the new federal assistance, we can begin lending again.

The other news that's a silver lining on a not a great situation, that is, with home price declines that home prices are below FHA loan limits at this point and so FHA lending is available to us again in the future. That will be part of our discussion later on under item 9 or 10, I can't remember which one.

So with that, Mr. Chairman, I think we're ready to go into a brief closed session, and we'll -- we'll proceed on with that.

ACTING CHAIRPERSON CAREY: Okay. Thank you.

With that, we will adjourn into closed session under Government Code 11126(e)(1) --

MS. JACOBS: Excuse me, Mr. Chair.

ACTING CHAIRPERSON CAREY: Yes.

MS. JACOBS: I would like to say something for the whole meeting. I'd like to congratulate Katie Carroll for getting the Women in Public Finance Award. So let's all give her a hand.

(Applause.)

ACTING CHAIRPERSON CAREY: That's great.

MS. CARROLL: Thank you.

MS. JACOBS: Later you can tell us what that means.

MS. CARROLL: I'm not sure I've figured it out yet myself.

MS. JACOBS: Sorry to interrupt.

ACTING CHAIRPERSON CAREY: No problem.

MS. JACOBS: I didn't want to save that for closed session.

ACTING CHAIRPERSON CAREY: Okay. So we will -- we will be in closed session to consult with counsel regarding potential litigation.

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Item 4. Closed session

(The Board met in closed session from 9:42 a.m. to 11:00 a.m.)

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

And just procedurally, while we're -- we're -- while it's on our minds, there was a question about the schedule for the March 11th Board meeting, and the one date that has been floated out at the moment is March 25th. Folks, could -- think about that and give an indication to JoJo as to whether that's a possibility or not. At least we'd look at, rule in/rule out, one potential date.

MR. SPEARS: Still in Sacramento.

ACTING CHAIRPERSON CAREY: In Sacramento, yes. Lynn can't. Brooks, do you have any idea?

MR. TAYLOR: I think I'm clear.

MS. JACOBS: It is what it is.

ACTING CHAIRPERSON CAREY: Ruben?

MR. SMITH: I think I'm okay.

ACTING CHAIRPERSON CAREY: Barbara? Paul?

MR. GUNNING: Paul is a little upset he's not busy.

MR. HUNTER: I've got the whole day.

MR. SHINE: We've got six committees.

ACTING CHAIRPERSON CAREY: Heather?

MS. PETERS: I'm available.

ACTING CHAIRPERSON CAREY: Katie?

MS. CARROLL: Yes.

ACTING CHAIRPERSON CAREY: Okay. It looks like we've got a pretty good crowd. We'll look at that. Staff can look at that.

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Item 5. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing the Agency's single family bond indentures, the issuance of single family bonds, short term credit facilities for homeownership purposes, and related financial agreements and contracts for services (Resolution 10-01)

ACTING CHAIRPERSON CAREY: Okay. Moving on, item 5, the first of three relatively standard resolutions.

Steve. Bruce.

MR. SPEARS: I'll turn the time over to Bruce. These are, again -- this is the -- sort of the normal thing that we do in the January Board meeting, is reauthorize the financing division to issue bonds, manage bonds, all the agreements and all the documents that go with them, so I'll turn it over to Bruce.

MR. GILBERTSON: Thanks, Steve, and Chairman, Members of the Board.

I'll try to go through this quickly. Those Board members that have been on this Board for more than 12 months have heard this, kind of, before, but I've designed the presentation a little differently to try to cover at a high level the authorizations that staff is asking the Board to grant today.

So Resolution 10-01 is the single-family financing resolution, if you will. The Board is being asked to authorize staff to -- for us to issue bonds during the course of the year, to utilize the previously approved bond indentures as listed in the resolution, and there's quite an extensive list, and then to allow us to work with the State Treasurer's Office as the agent for sale on the timing of the sale of the transaction and for us to work with our investment banking team to structure the bonds.

The amounts, we're asking for an issuance amount to not exceed the amount of bonds that we could otherwise re-fund through a bond redemption activity in conjunction with new issuance, the amount of CDLAC allocation that the Agency has been awarded and up to $900 million of federally taxable bonds.

When we look at the homeownership program and the previously awarded amounts from the California Debt Limit Allocation Committee, I've shown those on this slide. So we have a total of $1.2 billion worth of tax exempt issuance authority that the Agency needs to use by the end of this calendar year.

That's derived really of two parts, a regular volume cap award during the course of calendar year 2007 and then an additional award as a result of legislation in the summer of 2008 that was almost $900 million -- that had a two-year time horizon -- an additional 450 million of authority that goes away at the end calendar year 2011. And then in December of 2009, we received yet another award of $225 million that is good through the end of 2012.

The resolution further authorizes staff to enter into and use related financial transactions to invest bond proceeds; to hedge interest rates over time; for purposes of hiring consultants to advise us, be them financial advisors, cash flow advisors, that type of entity. We've asked for a reauthorization to enter into short-term credit facilities to the extent they are available to us in an aggravate amount up to a billion dollars.

We've used these facilities historically to warehouse loans, both multifamily mortgages as well as single-multifamily mortgages. And it does help us with operating capital at different periods of time.

The -- the resolution, again, you might have read through it. It's a very large resolution. It covers program documents and program agreements that we might enter into for purposes in support of the homeownership loan program. These would typically be loan purchase agreements, loan servicing agreements, pooling agreements to take loans and securitize them inside of a mortgage-backed security.

Just quickly, this will be a theme, kind of, throughout the open session today, is -- is this new issue bond program. You know, one of the things we briefed the Board on in November were the two components of the federal initiative. One of them was the new issue bond program where Treasury effectively was buying bonds from the Agency. We did close a billion-dollar transaction at the end of December. This is going to be our starting point for financing loan programs that we hope to get up and running very, very quickly here in 2010.

The restrictions or the further requirements of our agreement with the GSEs and Treasury are that we have to issue additional bonds in public markets to private investors. There's a bullet further down that describes this as the 60/40 kind of split. For every three dollars of new issue bond proceeds that we already have, we have to issue two dollars of bonds in the public markets to private investors. So we have up to three times during the course of this year to release moneys from the escrow that is holding the new issue bond proceeds, and we would do that at the same time we've been in the marketplace selling the 40 percent.

We -- we -- we issued these bonds, and I've referenced in the closed session the purple box. Here's the purple box. The residential mortgage revenue bond indenture is a new indenture. This Board approved it in November of 2006. It's designed to do purchase -- purchase the finance of mortgage-backed securities that are created from whole loans of the Agency, FHA insured, conventionally insured, or whatever other programs we can create over time. In the later agenda item we're going to talk about the business plan and some of the products that we hope to do during the course of this year.

So we will use the residential mortgage revenue bond indenture for this program. We hope with the 40-percent additional market bonds this creates a pool of lending of almost $1.7 billion. It's pretty ambitious. We need to get our programs up and going. We think there's a real demand for high quality product. Hopefully we can produce a rate that's going to be effective.

As a part of the new issue bond program, we did lock in a rate in mid-December. It's tied to the ten-year Treasury. Rates have drifted higher since then, and we believe rates will go higher beyond that at this period of time, so from that perspective, we could have a competitive rate advantage.

MR. HUDSON: Can you go back to that last bullet?

MR. GILBERTSON: Sure.

MR. HUDSON: So this is the first time I've had to look at this. Take me from the homeowner that needs a loan to that last bullet.

MR. GILBERTSON: The -- I think we should defer that. I'll ask Steve if he wants to talk about the program side and where we're going with loan products. This is the mechanism that's producing the capital base for us to purchase the loan, and in this case it's --

MR. HUDSON: So -- so --

MR. SPEARS: I think this is probably the appropriate time to talk about the business model we're going to use. I think we're just going to talk about product features later on, so.

MR. HUDSON: Somebody -- somebody goes to a mortgage broker that's offering our product, and the borrower gets a loan. The money to fund that loan comes from us?

MR. SPEARS: They close the loan.

MR. HUDSON: They close the loan with their own warehouse line.

MR. SPEARS: With their own warehouse line.

MR. HUDSON: Okay. And then we buy the mortgage.

MR. SPEARS: In the past we just bought the whole loan itself.

MR. HUDSON: Okay.

MR. SPEARS: Now, under this, we won't be buying any more whole loans. This loan will be packaged by Bank of America Countrywide, our master servicer, and we're looking at one other master servicer to help us do this. Fannie Mae will eventually own that loan and --

MR. HUDSON: So wait. So --

MR. SPEARS: -- guarantee it.

MR. HUDSON: -- I'm a mortgage broker. Wait a minute. I'm a mortgage broker holding this -- this piece of paper. BofA buys it?

MR. SPEARS: I think it's --

MR. GILBERTSON: Yes.

MR. SPEARS: -- delivered to BofA? Gary?

MR. HUDSON: Let's just use BofA. Let's just use BofA.

(Court reporter interrupts for clarification of the record.)

MR. HUDSON: BofA buys it. Then what?

MR. SPEARS: It's securitized --

MR. HUDSON: Yes.

MR. SPEARS: -- meaning Fannie Mae winds up owning the loan.

MR. HUDSON: Okay.

MR. SPEARS: They guarantee the income stream from the loan.

MR. HUDSON: Okay.

MR. SPEARS: It's packaged into a security, and rather than use the bond proceeds to buy whole loans now, we're buying mortgage-backed securities, and we hold those on our balance sheet.

MR. HUDSON: So we're like a -- we're like an investor, a Fannie Mae, Freddie Mac investor.

MR. SPEARS: Yes.

MR. GILBERTSON: Simply put, yes.

MR. HUDSON: Okay.

MR. SPEARS: FHA loans, we go to Ginnie Mae.

MR. GILBERTSON: The difference that attaches to all of this is we're working in the tax-exempt world, and federal tax law has specific requirements for us to also adhere to. It has to be a first-time homebuyer as evidenced by the homeowner not having a home for three years, income limits and sale price limits --

MR. HUDSON: And is --

MR. GILBERTSON: -- that further restrict the program.

MR. HUDSON: And is there mortgage insurance?

MS. JACOBS: That's the question of the day.

MR. GILBERTSON: There may --

MR. SPEARS: That's the later conversation we'll have. There is an answer to that -- that question, and I think you'll like the answer, but --

MR. HUDSON: Okay.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: It seems to be pretty ironic that we are going into the securitization market, the one market that has proven to be the downfall of the financial markets, rather than doing whole loans at this point. Would you like to explain the reason for that?

MR. SPEARS: Yes. We have been in the securitization market for the entire history of CalHFA. The bonds that we sell are mortgage-backed securities.

MR. HUDSON: Plus -- plus --

MS. JACOBS: Right, but the whole -- but the switch from whole loans to packaging the loans and having them be a security --

MR. GILBERTSON: We don't directly take the real estate risk because we have the guarantee from the federal government. The federal government via Fannie Mae or Freddie Mac will front the mortgage payments even if the borrower doesn't make the mortgage payments. So it's kind a -- it's kind of a flow-through concept.

MR. HUDSON: The answer -- the answer to your question is the money -- the money is coming from the federal government, so the federal government is saying this is the way we want the program to run, which supports Freddie, Fannie. And it's -- it's like if I gave you the money, I'd want you to use it in a way that supports my --

MS. JACOBS: Right.

MR. GUNNING: Use my guy.

MR. HUDSON: It's my guy.

MR. SPEARS: But Lynn's concern is what people have heard about, you know, collateralized debt obligations and mort- -- those were -- those were non-Fannie, -Freddie, -Ginnie.

MS. JACOBS: Okay.

MR. SPEARS: Those were privately securitized, not backed by the federal government. They weren't even eligible because of the type of loan they were -- and went to other investors around the world.

We -- we're -- our bondholders have always been purchasers of mortgage-backed securities. That's what these bonds are. They're backed by those loans. What we're going to do is take the real estate risk, transfer that to -- the federal government is going to guarantee this income stream, and get out of the business of holding whole loans on our balance sheet on the single-family side.

MS. JACOBS: Okay. I can't wait to see the rating of Fannie Mae in three years.

MR. GILBERTSON: Which it's rated triple A.

MR. SPEARS: It's rated triple A.

MR. GILBERTSON: The marketplace is assuming --

MS. JACOBS: Yes.

MR. GILBERTSON: -- the whole United States government is behind them.

MS. JACOBS: I'm saying three years from now.

I'm not saying now.

MR. SPEARS: Oh, Fannie Mae?

MR. GILBERTSON: The one thing to remember --

MR. SPEARS: That was our Christmas Eve present, that the United States Treasury said we'll back Fannie and Freddie 100 percent.

MS. JACOBS: Right. That was -- that was then.

MR. GILBERTSON: The Agency has clearly tried to limit -- and we have no risk in this. We don't have real estate risk, and this will be a limited obligation indenture secured by the mortgage-backed securities and the revenues off those securities, so it's -- that's what the bondholders will receive. And at this point the rating agencies -- Moody's has given it a triple-A rating.

Any other questions? This is the time. We're going to go -- I think ask for the -- the question, but glad to answer any other questions you have.

MS. CARROLL: I have a couple of questions. And I understand that this is our typical resolution that we go through every year.

I also understand that your business plan has changed considerably and that you're not looking to buy whole loans anymore, and that gives me, frankly, a lot of comfort at this point. Who knows, that may change again in the future, but at this point, that gives me a lot of comfort.

I'm not sure this resolution, however, limits you to that. And I am wondering would it be appropriate, given that the Board is, you know, being -- or at least certainly I'm being given some comfort about the business plan, that the resolution actually limit you to those transactions that fit into your revised business plan as opposed to this blanket, huge, you know, us authorize everything at the beginning of the year.

MR. SPEARS: It's the pleasure of the Board.

MR. HUDSON: I don't see why that would be a problem because you can't use the money any other way, right? I mean, if you take that money, you've got to use it this way, in terms of mortgage backs. You can't --

MR. SPEARS: The triple-A rating is based on an MBS business model.

MR. HUDSON: Right, but not only a triple-A rating, but we got this money from the federal government, right?

MR. SPEARS: Yes.

MR. HUDSON: And they structured the program this way, right?

MR. SPEARS: Yes.

MR. HUDSON: Under this --

MR. GILBERTSON: I think part of the answer to Katie's question is that on page 158 and 159 is a listing of -- oops, I think I'm on the wrong resolution, I'm sorry. Yeah, 41, top of 45, 145, there's A through L. So there's a number of different historical bond indentures that this resolution authorizes us to issue debt under those resolutions. Each of those resolutions has a different type of financing mechanism, the type of product that we can -- we can issue.

If the Board feels we should restrict ourselves on prospective loan products, there's probably a section. There's a bit of a write-up on program documents that we could amend as a part of this and -- and further restrict --

MR. GUNNING: I guess the question I have, the same that Katie's raising, is given the dynamics of the circumstances, do we proceed as usual? I mean, do we give you the blanket authority -- I mean, I'm asking that from your point of view as staff -- or do we take more cautious steps in a limited resolution that authorizes you to do the things you have to do and maybe on an as-needed basis you come back, Bruce. I don't know, but I --

MR. GILBERTSON: The only thing I worry about -- and maybe what we're talking is about debt finance programs, debt of the Agency. I worry about we have some GO bond proceeds we're still working. We're buying whole loans that are subordinate loans. I think you want us to continue to buy those. So you want to be careful it's not too broad and it's -- it's -- it's narrow enough.

If it is the desire of the Board to restrict Agency debt financed single-family loan products to only be mortgage-backed securities guaranteed by the federal government -- Ginnie Mae or the GSEs -- I think that clearly is the direction we're going. That is the programs that we are developing today.

ACTING CHAIRPERSON CAREY: If that were part of the motion, would that -- would you feel comfortable if that statement was part of the action?

MS. CARROLL: If that were part of the limitation on what the Agency -- and I'm not clear how this works legally in terms of what we adopt, but I would like to see you guys come back to us -- if you wanted to issue bonds that were backed by whole loans again, I would really like to see you come back to us.

MR. GUNNING: I don't want to put any handcuffs on anybody. We appreciate your flexibility and your professionalism to get the job done, but, you know, maybe on an as-needed basis.

MR. GILBERTSON: Tom, do you have any ideas on how we...

MR. HUGHES: I guess the concern I have is that obviously these are complex resolutions. They -- they not only authorize the issuance of securities, they provide essentially all of the operating authority needed to both go forward with new programs and to manage the existing programs and debt that's out there.

The authority expires today because this is the first -- each year's resolution continues until the first Board meeting of the next year that you have a quorum, so we have to precisely draft whatever limitations the Board desires because we can't put this off because it will expire.

MR. HUDSON: Let me ask, I'm not sure, that last bullet says residential mortgage revenue bond indenture requires proceeds to be used to purchase mortgage-backed securities. So if we're using residential mortgage revenue bond indenture, we don't have a choice, right?

MR. GILBERTSON: Yeah. I think that may be -- I wrote it, I'll take the credit, probably overstated it. I think it's in our intent. It may not be an absolute requirement.

MS. CARROLL: Now, I think this --

MR. GILBERTSON: So this will clearly --

MS. CARROLL: The resolution authorizes a lot of other --

MR. GILBERTSON: Remember, Paul, inside this resolution you have a lot of other forms of indenture that you're authorizing this Agency to issue bonds under that potentially would be broader.

MR. HUDSON: But is it the intent that this money would be used on mortgage backed? Or you --

MR. GILBERTSON: Correct.

MR. HUDSON: -- haven't made that decision yet?

MR. GILBERTSON: It is our intent, but we -- we left the indenture broader for -- for the future.

MR. HUDSON: For other money that may come in or for other --

MR. GILBERTSON: Yeah, other programs in the future, in 2011 --

MR. HUDSON: Well, can't we just do a resolution that limits these funds to this stuff?

MR. GILBERTSON: It's a contractual document that we've -- we've actually signed and issued in the marketplace, so I think it would be troublesome to do that. You can amend the indenture. This is a -- you know, a --

MR. HUDSON: So one final question. The terms, when we got the money from the federal government, there was no limitations like this in the money.

MR. GILBERTSON: No, the purpose -- the initiative allowed HFAs to either do whole-loan programs, you know, or --

MR. HUDSON: Oh, okay.

MR. GILBERTSON: -- MBS, so it is broader than that.

MR. SPEARS: It was a national program that applied to all agencies.

MR. HUDSON: Okay.

MR. SPEARS: We're making the decision --

MR. HUDSON: I got it.

MR. SPEARS: -- to go down this line.

MR. HUNTER: I just -- I may be a little confused here, but it seems to me this resolution also contains CDLAC authority, which is totally different than this, right?

MR. GILBERTSON: No, the CDLAC reference here is specifying the amount of debt that we can issue during the calendar year. There's a -- there's a separate resolution coming up, I think it's 10-03, that the Board weighs in on how much the Agency or the staff of the Agency can apply to CDLAC for.

MR. HUNTER: Okay. But if you go back to the first slide -- there.

MR. GILBERTSON: This is trying to specify that the Board is authorizing an amount of debt that can be issued by the staff, and it has three components, you know. Bonds that would otherwise be eligible to be re-funded, is the first bullet. The amount of allocation we receive from CDLAC. And for purposes of single family, we have these amounts shown below on hand today. And then a further amount of up to $900 million of federally taxable bonds, because the CDLAC authority is tax exempt.

Clearly those are -- those are larger than we have plans to do. I think the presumption has always been -- and, again, the world has changed around us -- that we should have broader authority from the Board since Board only meets every other month, rather than have to come back to the Board every time to receive authority to issue debt. Certainly we lose flexibility if that were to occur.

ACTING CHAIRPERSON CAREY: Back to the question of what we want to do, I worry about editing a resolution on the fly. Can we state intent within our motion, which would certainly be constraining to the staff, without amending the resolution?

MS. CARROLL: Well, let me ask this: Can we state intent in our motion and also ask the staff to come back with an amended resolution or a restated resolution at the next meeting so you're not hindered from going forward with your business, and you state the intent that you're not going to enter into loans outside of what you -- or enter -- or sell bonds outside, and then come back with a restated for the rest of the year?

Because I don't want to restrict your flexibility to the point that you can't get your business done, but I do think the idea of -- of deviating from the business plan that we're being presented is a much bigger issue than it has been in the past.

MR. GILBERTSON: I think that's fine. I think -- I just want to make sure that I'm clear. I think this relates to the single-family program, first-mortgage program, and for those programs that are financed with debt capital that we raise in the marketplace.

MS. CARROLL: Yes.

MR. SPEARS: We can do that.

MR. GILBERTSON: I just want to make sure -- Bond Counsel, any concern one way or the other, Dan or Stan?

MR. DIRKS: I think if you express it as net proceeds of any new bonds must be used to finance MBSs because that -- that would give you the flexibility to manage the existing indentures but says new bonds are for

MBSs until the Board says otherwise. Is that --

MR. HUGHES: For the first-loan program and not subordinates; is that correct?

MR. DIRKS: Yes.

MR. HUGHES: Great.

MR. SPEARS: That's my understanding.

MR. DIRKS: And I -- in terms of Katie's notion about seeing it next meeting, I would put it in the resolution, and the approval of the minutes at the next meeting would confirm that the resolution expressed the intent of the Board correctly. And I guess that's how I would do it. I think it would be pretty clear, pretty easy to draft it so that it expresses that intent.

MS. CARROLL: That works for me.

MR. HUGHES: Right. And another just historic way, another way that the Board has historically dealt with similar issues is to direct staff -- if staff has authority to do something but the Board is concerned about what that something is, the Board has frequently directed staff to come back at the next meeting and report what they've done or any changes to what they're doing. And that's another way the Board has usually dealt with it.

ACTING CHAIRPERSON CAREY: Is someone prepared to make a motion?

MR. GUNNING: I'll move.

ACTING CHAIRPERSON CAREY: With the intent as stated by Mr. Dirks?

MR. GUNNING: Yes.

MS. CARROLL: And I'll second.

ACTING CHAIRPERSON CAREY: Second by Ms. Carroll. Okay.

MS. OJIMA: Was it Mr. Gunning?

ACTING CHAIRPERSON CAREY: Mr. Gunning, yes.

MR. HUGHES: Mr. Chair, we have to solicit public --

ACTING CHAIRPERSON CAREY: Oh, thank you.

MR. HUGHES: -- comment before any Board action.

ACTING CHAIRPERSON CAREY: Great. Sorry.

Okay. This is a public action. If there's anyone here who wishes to speak to this matter, please indicate.

Seeing none, call the roll.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.
MR. HUNTER: Yes.
MS. OJIMA: Ms. Jacobs.
MS. JACOBS: Yes.
MS. OJIMA: Ms. Carroll.
MS. CARROLL: Yes.
MS. OJIMA: Ms. Macri-Ortiz.
MS. MACRI-ORTIZ: Yes.
MS. OJIMA: Mr. Shine.
MR. SHINE: Yes.
MS. OJIMA: Mr. Smith.
MR. SMITH: Yes.
MS. OJIMA: Mr. Carey.
ACTING CHAIRPERSON CAREY: Yes.
MS. OJIMA: Resolution 10-01 has been approved.
ACTING CHAIRPERSON CAREY: Thank you.
Moving on to item 6, multifamily bonds.

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Item 6. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing the Agency's multifamily bond indentures, the issuance of multifamily bonds, short term credit facilities for multifamily, and related financial agreements and contracts for services (Resolution 10-02)

MR. GILBERTSON: Okay. Very similar resolution for our multifamily programs. This resolution authorizes staff to issue the bonds, utilize the indentures, and again comparable long list of -- bond indentures or forms of indentures that are authorized to be used. We can determine the timing and sizing structure of the bonds up to the amounts that the indenture or the resolution provides for.

Again, it's limited to the eligible bond principal being redeemed in conjunction with new bond issuance amounts awarded to us, private activity bond volume cap awarded by the California Debt Limit Allocation Committee, plus up to $800 million of either 501(c)(3) nonprofit approved entities or taxable debt. And as of this point, we have an award from CDLAC of almost $200 million that was awarded to us in December 2009, and it is eligible for use through 2012.

Some of these slides are going to look very similar, the same types of reauthorization to invest bond proceeds, to hedge interest rate risk, consulting services, financial advisors and the like.

It allows the Agency to enter into short-term credit facilities for loan warehousing purposes or providing operating capital and, likewise, authorizes program documents and agreements to be entered into in support of the program.

So we ought to pause here, considering the last conversation, and talk about the multifamily program and what we're planning to finance, not necessarily mortgage-backed securities in the multifamily space, but they clearly are -- I think I have -- here they are.

The bottom of this page, the requirements of the federal program are that you either have an insurance from FHA, could be an insurance policy or a form of a risk-share agreement. The -- the loan or bonds would be guaranteed by Freddie Mac and/or Fannie Mae or underwritten to their guidelines. Certainly the last one is not a security. It's a whole loan. But they've prescribed some guidelines that an HFA could use.

MR. HUDSON: And this "requires" is the real requires, right? This "requires" is the requires like I define requires requires?

MR. GILBERTSON: Yes. These are the -- this is the universe of products that we can use for purposes of the multifamily program under this new issue bond program. Yes.

MS. CARROLL: But again -- I'm sorry, but again, the resolution is broader, so theoretically you could -- what else could you enter into that wouldn't be part of this?

MR. GILBERTSON: Clearly, again, what we were doing up until this time is -- the more recent financing program was a whole loan, typically without insurance, and we use our general obligation credit to enhance it. Clearly the affordable housing multifamily housing revenue bonds is not a GO credit of the Agency, and so we've limited it again. So we have a standard to the rating agencies in the marketplace that we have a high enough collateral in the form of a loan that they'd be willing to purchase these bonds.

But, again, I think the point is kind of the same. I don't think -- I don't think the fix would be identical, but we could come up with something at the Board's pleasure to kind of restrict the type of asset that we're purchasing.

MS. CARROLL: And I guess, you know, given some other things that we've heard today, I -- you know, I would like to see it limited to what you've outlined here and not pledging the Agency's general obligations to future bonds.

MR. HUDSON: Yes, but if I understood what you said, we couldn't -- you don't have any flexibility with this program.

MR. GILBERTSON: This one, we don't. It's three.

MR. HUDSON: So if we amended the resolution, that doesn't tie your hands at all, right? If we made it only these three products --

MR. GILBERTSON: The only thing you are tying our hands is this is -- this is a $380-million program. I think it's unlikely we would be able to do more than that in the calendar year 2010, but per chance we could do $700 million of lending activity. We have to issue other bonds. And you have given us a laundry list of other bond indentures that we can use that have a variety of different credit support mechanisms.

MR. HUDSON: But they wouldn't be affordable -- multifamily affordable housing revenue bonds.

MR. GILBERTSON: Correct. But that is -- I guess what I would do just, Paul, to be crystal clear, if we look on page 159 of the Board binder, item 24 in a list of 24 is the affordable housing revenue bonds indenture. That means there are 23 other options.

MR. HUDSON: But if we approve this resolution, any money raised, any money derived, from 24 would have to be that. Would have to be --

MR. GILBERTSON: Yes.

MR. SPEARS: That is correct.

MR. GILBERTSON: That's totally correct.

And again, we -- we don't believe -- we think we're going to be challenged to do $380 million worth of lending in 2010. We hope that's not the case, but -- but that's the core of the program as we think about the balance of this -- this calendar year.

ACTING CHAIRPERSON CAREY: Further questions or discussion?

MR. HUDSON: I guess Katie's point has to be dealt with and I guess it can't -- it's not -- maybe it's not appropriate to deal with it in these resolutions, but I think it has to be dealt with from a broader business plan asset allocation, resource allocation, type of plan that says as a Board we only feel comfortable with this much in this, this much in this, and there's ranges, and you have the flexibility to work within these ranges, but that's -- I guess I would feel comfortable if I knew at some point we were going to address that, and that would overlay these resolutions that we're dealing with.

MR. SPEARS: I would point out that in July, it was before your time, the Board adopted a two-year business plan that adopted the MBS strategy for single family, so the Board's taken formal action on a business model that's close, at least on the single-family side. So --

MR. HUDSON: And does it --

MR. SPEARS: -- we can refine that.

(Court reporter interrupts for clarification of the record.)

MR. HUDSON: Does that model -- there's two ways you can do that. You can say you're authorized to do this, this, and this, or it could be you're authorized to do this much with this and this much with that. So which way is it?

MR. SPEARS: It's the former, not the latter.

MR. HUDSON: Former, yes. So I would say it would be nice if the Board could revisit this and say we like all the things you're doing but we're only comfortable with so much in this -- in this riskier vein as we -- as it's defined -- as we define it and, you know, maybe do it percentages or some way, figure out a way that we can manage the risk associated with different products.

MS. CARROLL: And I guess where my concern is right now and what -- and you guys as staff tell me if this a problem. My concern is anything that would further lend the Agency's general obligation to the security. So, you know, now it looks like you're doing these -- basically these insured products, and that, I'm comfortable with. That's, I think at this time, an appropriate business model.

So where my concern is right now is something that I think you really don't plan to do, but it got -- it's in the resolution. And it just seems like, from my perspective as a Board member, prudent to put some limitations out there.

MR. GILBERTSON: Katie, one thing I think we should talk about, Stan reminded me, that we are planning to do a lot of FHA risk sharing.

Under the risk sharing agreement -- this is kind of away from bonds necessarily, but we have an agreement with the Federal Housing Administration where we're going to share in risk, if there is risk on the loan. So we would be using, you know, that general obligation authority of the Agency, the general credit parameters of CalHFA in entering into that.

We think that risk is -- is manageable. You know, I'm trying to -- I'm grappling a little bit on the multifamily side of how we deal with it, and is it better dealt with on the financing side, or is it better dealt with on the loan underwriting criteria? Is -- you could --

MS. CARROLL: Sort of the pulse point --

MR. GILBERTSON: -- do it either -- either place or both places, potentially. But clearly the Board could establish, you know, some sense of where they felt comfortable we should lend on the multifamily program.

It's a very challenging marketplace these days. I mean, we want to do construction lending. We've kind of said we probably can't do that because of our situation. And then you have to go through the rest of the analysis.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: Thank you.

It is true that we voted on a two-year business plan, but I do think it would be a good thing for us to revisit it at a future meeting, whether it's the March 25th or the following meeting, just because we have new Board members and also things have changed. Okay? Just a suggestion.

ACTING CHAIRPERSON CAREY: Mr. Hudson next.

MR. HUDSON: No, I'll let --

ACTING CHAIRPERSON CAREY: Okay. Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: The concern I have, I think from what I've reviewed -- and correct me if I'm wrong -- but we've had better success and we're not in as precarious a position with the loans we've done multifamily as opposed to the -- to the homeownership. That's -- is that a fair statement?

Then I would say that with respect to this end of the business, I would be more comfortable with the -- with the staff being able to pursue, and perhaps more aggressively pursue, the multifamily side of the business because that may be -- is the most stable one. And just from where I sit, I think, you know, I've seen more trouble, more stress, in terms of the single family than in the multifamily, and the multifamily one really does stay within the mission because of all the -- the constraints.

So I would be hesitant to try to reshape what we're doing in multifamily so much, because I didn't sense that multifamily is our problem. And I -- I don't know, so I would -- I would be more inclined to --

MR. GILBERTSON: I think --

MS. MACRI-ORTIZ: -- see things a little bit more business as usual on this end of the -- of the -- the business plan and the authority that we give for multifamily.

MR. GILBERTSON: As a general statement, I think you're absolutely correct. I do want -- because we have so many new Board members -- we have foreclosed on multifamily properties before. We sold five REOs that were foreclosed during a period of ten or 12 years a couple years ago. We held them and kind of managed them over that time. We had the Ridgeway project in Marin that had construction defects, so -- so we've had a few, but it's not as widespread. As we think about what's going on in single family, and that's really driven by the home prices and the overall economic situation, it's much different.

ACTING CHAIRPERSON CAREY: Ms. Peters.

MS. PETERS: Just a comment on that for the new Board members. On the multifamily side as a matter of course the Board approves every single loan we make, as I understand. There is no staff --

MR. GILBERTSON: There is a delegation.

ACTING CHAIRPERSON CAREY: Above a certain level.

MR. HUGHES: Technically, actually, that's correct. The two statutory functions of the Board are, one, to approve the issuance of securities, and, two, to approve major contractual obligations. And historically the primary role of the Board has been to approve multifamily loans.

I only want to point out that there is an existing Board delegation for small projects, which is defined as under $4 million. But otherwise, every multifamily loan comes back to the Board. And there's actually some other technical delegations on Bay Area Housing and I think on MHS Prop 63 Mental Health Housing. But -- but that's all within the control of the Board.

MS. PETERS: Also, I wanted to ask the Chair's indulgence and see if we might be able to move up agenda item number 10, the business plan update, before we vote on these next resolutions so that we're bringing people up to speed on where we are before we ask them to decide on things.

ACTING CHAIRPERSON CAREY: We want to -- are we -- are we comfortable with voting on this one yet or do we want to --

MS. PETERS: I am personally, but since we keep referencing back to the business plan, and I'd like to know where we are on the business plan, it might be helpful for everyone to see it.

MS. CARROLL: And, I'm sorry, I'm comfortable, especially given your explanation, that we vote on everything that's above four million. I derive a lot of comfort in that.

MR. HUDSON: Me too.

ACTING CHAIRPERSON CAREY: If we could go ahead and take action on this one resolution and then we'll --

MR. SHINE: So moved.

ACTING CHAIRPERSON CAREY: We have a motion from Mr. Shine.

MS. JACOBS: Second.

ACTING CHAIRPERSON CAREY: Second by Ms. Jacobs.

MR. HUGHES: Mr. Chair, we have to solicit public comment.

ACTING CHAIRPERSON CAREY: Yes. I was --

MR. HUGHES: Okay.

ACTING CHAIRPERSON CAREY: I was about to, this time.

This is a public item, and we are open to public comment from anyone in the audience who wishes to speak to this item.

Seeing none, we will have a roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 10-02 has been approved.

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Item 10. Business Plan Update

ACTING CHAIRPERSON CAREY: Okay. It's been suggested we move to item 10, and that doesn't take too much regrouping.

MR. SPEARS: I don't think it will. There was a long discussion about how to avoid duplicity between all these --

ACTING CHAIRPERSON CAREY: Duplication.

MR. SPEARS: Duplication, so sorry. Yes, my mistake. I'm sorry. Hopefully not Freudian.

-- duplication of effort, but to my mind there are three elements. We have to have capital to operate. That's what we're doing in items 5, 6 and 7. That requires a couple things. One is we need sources of financing, and that's 5 and 6 for the single-family bonds, and the -- 6 for the multifamily bonds.

We also need tax-exempt debt issuance authority. That's item number 8 -- or 7. Yes, 7. And that allows us to put the bond plan, and then the other piece is actually the products that we offer.

So what we're trying to focus on is how much capital do we have to work with for the coming year and how would you like to see that employed. We don't -- we -- I tried to save the actual products to -- to this point.

I'll say right off the bat at this point in our planning process, I think it's a little early for us to try to predict how much volume we're going to have. As has been said over and over again, these are very uncertain times. We're not sure what's going to happen with home mortgage rates. I've talked to Bob a lot about what the demand is out there. Lynn and I have had conversations about where things are for affordable housing rental stock. And it's -- it's uncertain.

So what I was going to focus on in this part and have Gary and Bob come on up, is the actual products -- and, Ken, you might as well come up too, because I think we'll be able to use some of what Ken's found out in some meetings with some of our business partners out there on homeownership products and just take you through some thoughts that we have about products going forward.

Again, we're not going to be offering -- we're not going to be purchasing whole loans on the single-family side. We'd like to get back to the KISS model, Keep It Simple, Stupid.

And fixed-rate 30-year products, Paul, you asked about mortgage insurance, I think we'll cover that, but the environment is now that we have a situation where home price values have declined to the point where we're within FHA limits.

MR. HUDSON: So what Katie started, to me, is a discussion of risk management.

MR. SPEARS: Yes.

MR. HUDSON: And in this environment, everybody's sensitive to risk management. And when I hear Bruce say that we -- we've entered into an agreement with FHA to share the risk --

MR. SPEARS: On the multifamily side.

MR. HUDSON: -- on multifamily, that triggers a risk management nerve in my brain that says, well, does the Board weigh in on that issue, or are we just told that we now are sharing with FHA on the risk management? So for me the business plan should address from a Board level what's -- what's the amount of risk we're willing to accept. And what I hear Katie saying is she's much more comfortable with insured -- transferring the risk to somebody else.

MS. CARROLL: Well put.

MR. SPEARS: I will go on record as
wholeheartedly agreeing.

MR. HUDSON: I don't know what that means in terms of our business plan. Does that mean we're only going to do -- well, if that's the case, then, you know, Katie doesn't have to worry about it because we're only going to do -- but I hear people ask about flexibility, which would say we'd like the flexibility to do some other stuff also.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: Might get off track here a little bit. My recollection of the CalHFA single-family loan program is that you can go -- they have up to 97-percent loans. And we just found out yesterday that FHA is tightening up all of its programs to have a minimum 10 percent down and higher credit standards. If we are now going to be kind of an agent of FHA, it looks like in terms of their buying all the loans or getting all the loans, are we going to have to change our standards to match those FHA standards, and how will that affect the business plan? That was one sentence. Pretty good.

MR. SPEARS: I understood it.

MS. PETERS: Did FHA change it all to 10 percent or just --

MS. JACOBS: Yes.

MS. PETERS: -- for low credit scores?

MR. BRAUNSTEIN: No, just for FICO --

MS. JACOBS: No, all 10 percent --

MR. BRAUNSTEIN: My understanding is --

MS. JACOBS: -- and higher credit scores.

MR. BRAUNSTEIN: -- on FICO scores of 580 and below would be the 10 percent down.

MS. PETERS: Three and a half --

MR. BRAUNSTEIN: 580 and above would be either standard down and -- our FHA product is a minimum FICO of 620.

MS. JACOBS: Okay. I think that this is not decided yet at the federal level.

MR. SPEARS: Mr. Chairman, I think to address Paul and I think it's the Board's concern with regard to risk, our business model is on the single-family side transfer all risk to the federal government by becoming a Fannie, Freddie, Ginnie Mae investor. That's our current plan and is consistent with the business model that was adopted back in July.

So -- so then the question is if that's our plan, does the Board have any concern that we do 500 billion -- 500 million of no risk single family or a billion no risk single family. That would be my question for the Board.

MR. HUDSON: Let me -- because I -- I heard Bruce asking for authority and the resolution asking for authority to do whole loan stuff that may be self insured or no insurance. Is that -- so, I mean, Katie -- we don't have to worry about these resolutions if the business plan says you can only do -- you're only going to do insured stuff.

MR. SPEARS: The intent of the staff is to stick to the business plan and --

MR. HUDSON: Which is insured.

MR. SPEARS: Which the insured. We purchase fully insured securities from Fannie, Freddie, Ginnie.

MR. HUDSON: Oh, okay. Then end of discussion.

MS. CARROLL: Another question, intent of the staff business plan versus approving a legal resolution that allows you to do something else, sort of what --

MR. SPEARS: It's the honor system, Katie.

MS. CARROLL: What's --

MR. SPEARS: I go against the -- but I think we amended the resolution, did we not? That --

MS. CARROLL: You did.

MR. SPEARS: -- takes care of that.

MS. CARROLL: I agree.

MR. SPEARS: So that problem is --

MS. CARROLL: I'm not going back on that one.

MR. SPEARS: So it's the intent of the staff.

And so -- so the question before us -- we have a couple of slides here on -- one on the -- one on homeownership and one on multifamily to discuss the products that we're going to be offering.

And all of these products, you can see the very last bullet, is that we are going to be using an MBS model with a master servicer, at least one. And these products would be a 30 year fixed rate with either FHA insurance or conventional insurance. And Gary can go into more detail, but here's what's happened on that side.

As you all know, the mortgage insurance -- we've discussed this. The mortgage insurance industry is not in great shape. They are requiring enormous down payments to even offer mortgage insurance. Fannie Mae, as part of the affinity agreement with HFAs around the country, are offering a product. We'll go up to a hundred-percent LTV, and Fannie Mae would provide mortgage insurance themselves.

MS. MACRI-ORTIZ: That's a no-down product?

MR. BRAUNSTEIN: Yes.

MR. SPEARS: Yes, it is. I'll let Gary go into more detail.

MR. BRAUNSTEIN: Well, in the simplest terms, that's what it is. It's a hundred-percent loan to value with zero down -- excuse me, with a thousand dollars borrower contribution as their down.

As Steve mentioned, Fannie Mae came out with this product in a consortium of the other HFAs across the country for a product that's conducive for HFAs to get back into lending.

And keep in mind for the new Board members, we lend to lenders who lend to borrowers, either through brokers or retail loan officers. So we always have to look to see what our lenders look to us as CalHFA as loan products that are different than they can offer themselves directly. So we always need to have a value add.

So the consortium of the HFAs across the country, when they're looking to get back into loan programs, what drives our first-time homebuyers in the low and moderate income families is that they have limited down payment to contribute to homeownership, and they are looking for a higher loan to value opportunity to get into homeownership.

Just one addition. Fannie Mae with their -- with this program insuring, self-insuring, it includes the mortgage insurance issued by Fannie Mae. And in that there is a pricing component for the loan that we deliver to Fannie Mae with an additional G fee that offsets that additional risk.

MS. MACRI-ORTIZ: I'm very uncomfortable with that because part of the problem that we have out there that is exacerbated is the fact that people walked into mortgages without any of themselves into it. And it's very easy to just say to hell with it when they have nothing vested in it. As hard as it is, if you're really going -- focusing on the -- on the needs of the low income, which is pretty high, I mean, in terms of amount of money low income folks make in California. It's a good chunk of money. I think it's important to have that.

And what I see when we -- when we change -- when we've changed the product, all we've done is we've allowed home prices to go up and to go up artificially, because we make it -- we make it possible for everybody to buy. And if -- if you can let everybody buy what's out there, there's no pressure on the market to start producing product that people, the working folk in this state, can -- can buy.

And in terms of the attitude, I really -- I think the debate really has to be what -- what does buying a home mean to a family? And we've changed it, because before it was your security. It was your shelter. It was where you raised your kids and what schools they were going to go to. And it was security. And what it changed to was just sort of the cash register for the family to be able to go beyond its means, or it was an investment that when the investment didn't look good, that's when you step out.

And if there's no commitment by the buyer, you know, to put some of their hard-earned effort into it, it's a lot easier to walk away. So I just -- I don't see it.

And I think that the more -- you know, it's -- we're in a position where, okay, do we lead or do we follow? And we say, okay, we got to do this for the mortgage lenders because we won't be able to compete with them or they'll -- they won't be interested in our product because of whatever. But if they're taking us down a road that we're going to fall off the cliff and we're just following because we want business, I don't think that gets us anywhere, and I don't think that's fair to the State of California.

MR. GIEBEL: I'd like to go backwards a little bit on this.

MS. MACRI-ORTIZ: Sure.

MR. GIEBEL: We just conducted focus groups with CalHFA preferred lenders, those are the people who have written CalHFA loans -- not so much lately because we've only done 18 -- and Realtors who have put CalHFA borrowers in properties. I will be happy to share those with you, put them on DVDs for you. We talked to about 42 loan officers and Realtors. Sacramento and Riverside, two places where we've done a lot of business in the past and two places where home prices are down 50 to 60 percent, especially Riverside.

I think you'll find this typical of all HFAs and low income and moderate borrowers to put them in their first homes. There's -- there's a couple of key things that separate HFAs from everybody else, because most people have limited funds, either the allocation or down payment assistance.

If we have a product like everybody else, like Paul is doing an FHA product, for example, which is three and a half percent, and we don't provide down payment assistance, for example -- we have CHDAP, the bond, for three percent -- we're not in the game. We have nothing to differentiate from anything that Paul can do or Wells Fargo or BofA, so there's no -- there's no "there" there for us. And the loan officers know that.

For us to get -- on CHDAP they can use that with somebody else's first, by the way.

For us to be -- have a difference on the first, we'll have to have a slightly lower rate. And they told us 25 basis points is fine. But you have to have something different than they have or there's no reason for them to come and see us.

Now, on this Fannie product that was built for FHAs, the biggest problem that first time low -- and this is for -- going to be for low to moderates, is that they really don't have down payment assistance. Our borrowers don't. I mean, if you look -- I'll send you a profile.

Gary, do you have that?

MR. BRAUNSTEIN: Yes.

MR. GIEBEL: Our low income borrower makes in California -- where is this -- $58,000. That's gross. That's -- of everything else. And this, these numbers, are from 2005 and 2008, because we haven't done any business since then.

So the issue becomes this hundred-percent product that was built for HFAs will get business, get people into homes at a time when they're affordable, even cheaper than what they can rent on the market, and, you know, that will differentiate us. Because nobody else will have it. Paul can't get it. BofA can't get it, and Wells.

So if our mission is to put low income and moderates in homes and the federal government's giving us a product and they've given us $1.2 billion to do it, you kind of question, okay, I got it. But it also gets REOs off the streets that are going to investors.

And so the issue really becomes from the loan officers, yes, that product will work. It will work tomorrow. When can I have it? And on the FHA, if you don't give me down payment assistance, actually, don't bother, because I got that product. And, like, 80 percent of the business, I think, is FHA business today. That's the only business that's being done in the state, is all FHA.

And, you know, we have some CHDAP issues where we're not -- we've shut down CHDAP because we require three percent. So if you want to use a CHDAP loan on an FHA, you got a six and a half percent. We have to change that, because we'll have -- then we'll have really no business.

So we've talked to these people for hours. They're an hour and a half. And we did this the last time. We do this for our web site. We've done it for the extra credit teachers program. And we find -- and that's the feedback we get.

But I'll tell you, the warning was -- and I think you'll notice from being in business -- they told us if you don't have something to differentiate it and you don't think it's going to work, don't bother, because what you've given us lately, we can't use.

MR. BRAUNSTEIN: The key also is because our channel reaches out to banks as our origination source, who in turn reach out to their customers and their -- and their brokers, these lenders can target low and moderate income families themselves. That too is their mission.

But they also have access and direct access to loan programs in the marketplace, just like we're proposing. So to Ken's point, if we're not adding a value add as to why that lender would look at their loan officers doing a CalHFA loan instead of them doing their own product, then we're not meeting our mission as originally stated to the low and moderate income families, and, hence, we could build products that will follow to that mission based on the value add that we can bring.

MS. MACRI-ORTIZ: Well, then I think we really need to look a little bit more, because if down payment assistance is something that's needed, maybe what we really need to do is start thinking about partnering with jurisdictions to be bringing in down payment assistance locally or something, because I just -- I'm just real --

MR. GIEBEL: But we do do that.

MR. BRAUNSTEIN: We do do that.

MR. GIEBEL: We've done 18 loans, and we've done ten in Fresno with his people.

MS. MACRI-ORTIZ: Okay.

MR. BRAUNSTEIN: My division targets the localities and the nonprofits for just that purpose. We have an affordable housing partnership program that's specifically targeted to the localities for their down payment assistance. Many of them, you know, are restricted with allocations at this point, but we do quite a bit of that business -- when we had a first-mortgage product that was conducive for bringing in that first mortgage and that additional down payment through the localities.

ACTING CHAIRPERSON CAREY: There's clearly renewed interest in these issues that will resurface at further discussions, it seems to me. We're -- we're -- this is cast as an update on the business plan, and I think we probably ought to move ahead with where we're at, recognizing clearly that there are some opinions that will be dealt with at upcoming meetings, if that is reasonable.

MR. SPEARS: Well, clearly the capital that we have is provided through the new issue bond purchase program. The U.S. Treasury says they'll buy -- or they've bought. We just have the ability to draw on a billion dollars of bond capital plus 40 percent, you know, that 60/40 ratio, that supports that program of up to one -- over $1.6 billion of lending.

Clearly we'd like to get a product out into the marketplace as soon as possible, but we want to have a value add. A year ago at the Board meeting we had a very engaged long discussion about what is CalHFA's value add. And I believe what you're hearing from Gary and Ken, after their conversations with market participants out in the field, these are the things that they look to CalHFA or local government who provides -- who provides loans. This is the sort of thing that they would add to what they've already got available in their own toolbox.

ACTING CHAIRPERSON CAREY: A little ironic that that down payment assistance doesn't really represent that skin in the game.

MR. SPEARS: Right.

ACTING CHAIRPERSON CAREY: And if we end up in a situation where it's all the other lenders who are using this Agency's CHDAP funds, then we've got the risk for those funds but no --

MR. GIEBEL: Just FYI, the Cal30 loans that have been done with the localities, they only have 57 percent of their money on those loans. All the rest is down payment assistance from localities and not from -- and

CHDAP. And CHDAP's only three percent. So right now those loans that we are doing are significant, and the incomes are very low on those loans. I'm saying in the high 20s for the low income.

MR. BRAUNSTEIN: One other point of consideration is that because we're using an MBS business model, the product that we put into that business model is not necessarily as important as it was before when we were doing whole loans.

So if we were to look at a higher propensity of FHA product versus the Fannie Mae hundred-percent product that's exclusive to HFAs, we certainly can consider that, but the question that we, again, need to look at is our lenders, who are our customers, have access to FHA loans. So we as an agency need to produce a product of an FHA product that would provide them a value add to use our loan programs versus doing FHA themselves. Now, that could either be a dramatic drop in rate, comparison to what they can get directly by going to FHA, or it would be down payment assistance or closing cost opportunities.

But, again, the Board should be aware that the makeup of the products in our MBS, the fact that it's an MBS and the principal and interest is guaranteed, again, is not as important as it was before when it was whole loans.

ACTING CHAIRPERSON CAREY: Ms. Peters.

MS. PETERS: Being sensitive to the fact that this is an update, I'd like to, you know, ask the Chair, ask the Board, to set aside some time later in the year to have a thorough vetting of this discussion, because it did come up before we ceased our lending process and before many of our new members were part of the conversation, where the Board was questioning what that value add is.

And I agree that our mission is to get low and moderate income people into homeownership, and I agree that clearly we need a value add here. But I also think that our mission should be sustainable homeownership. And if we have learned nothing from what Wall Street did with other people's money, I don't think we're serving the people of California.

Because what I'm hearing here is Realtors would love to have this product, people would love to have this product, yes, I would love to have this product, and then -- but there's this risk, but it's all rolled off on the federal government. Well, I'm the federal taxpayer. We're all federal taxpayers. And if we're just doing it because someone else said we can do it and we don't think it's necessarily the right fix, then it's not the right fix.

But there is a lot of value add of this Agency for the people we're trying to serve. I think we just need to as a Board define what that is. And it deserves a serious discussion, not a momentary debate and another item, I think.

ACTING CHAIRPERSON CAREY: I think it's great. I wholeheartedly support the phrase "sustainable homeownership," and there are varying ways you affect the sustainability. It isn't just the loan product. There are other ways you can do that. So that should definitely be in the works.

Okay. Where are we at now?

MR. SPEARS: Well, there was the same sort of discussion with Bob on the multifamily side, although here again, these are loans, as Barbara had mentioned before, that have been underwritten. This Board serves as the credit committee for these loans. You will see the larger of these. I think it's a $7-million limit.

MR. DEANER: Four.

MR. SPEARS: Four?

MR. DEANER: It's a $4-million limit, yes.

MR. SPEARS: Any -- any project with a cost of more than 4 million, you're going to see that -- or a CalHFA loan of --

MR. DEANER: Right. We have -- just so the

Board, the newer Board members, we have three programs.

The MHSA program is the Mental Housing Servicing Act that we administer with the counties to put money into projects to take people from homelessness into projects. That is a no-risk project to CalHFA. We underwrite and administer that and get fees for that.

TCAC, our consulting and underwriting role, they got a billion dollars from the federal government to act as a tax credit investor in two multifamily projects. Their role historically, the Tax Credit Allocation Committee, was just to approve the equity, and then you get a tax credit investor to come in as your limited partner, and they act as -- as the other side to make sure the project goes well.

Now that these federal friends have come in, they're really kind of acting as a lender, even though they're going in as grants, and they ask CalHFA and my staff because we do loan products that we act as a consulting role.

I thought Tom was going to say something to me.

We act in a consulting role to underwrite and approve these projects as if they were the lender, even though they're grants. So we're kind of the second set of eyes. And that's a no risk to us, and we're making fees off of that.

The third here is the new issue bond program, and there's really two ways for us to administer that program the way that the federal government has set it up. One, we could act purely as a conduit because we are an issuer. Historically we've been an issuer and a lender, and that's what we prefer to do because we're set up to do that, but we could take the money and act as a pure issuer and let Fannie Mae, Freddie Mac or FHA credit enhance these through other lenders. We act as an issuer to sell the bonds or deliver the bonds to Treasury, yet they put their credit enhancement, and we get up-front fees and ongoing fees.

I've made suggestions to Steve and Bruce that probably a big chunk of that money, that's probably what we should do because we have such a short window to put it out. And I agree we need to figure out where our GO fits in with multifamily, being that we need some GO capital capacity to lend under multifamily going forward, but what is that? And I don't want to roll a program out unless I know -- oh, the GO, general obligation. Sorry, I saw you guys -- until I know what that is because then I know what I can lend against.

So we haven't gotten into the details of the new issue bond program. I've made some recommendations to Steve and Bruce. But I think a big portion of that's probably going to go as a conduit where, again, we'll generate fees up-front and ongoing as an issuer. I've been talking to some of the bank relationships I have that would provide the Fannie Mae or Freddie Mac credit enhancement multifamily lending capacity to utilize that.

And then the last is where we were talking earlier, we've had an FHA re-share program for 30 years with the Agency that we share a 50/50 risk with FHA, if we do a deal. We haven't used it in ten years because we were putting our own general obligation on the bonds because we had an excess capacity to do that, and we wanted to be a construction lender so we were doing construction.

I am looking to restart that program so we can pare off that risk. But for multifamily going forward, there's going to be no way like single family to pare off a hundred percent of the risk if we want to be a lender. There's going to be some risk in there to the Agency, and we've got to figure out, okay, what is that and how much capital do we have to lend going forward.

But to go to the earlier point, too, is that our portfolio has very little delinquencies or defaults and is acting, because pure -- if you've got a hundred units and 90 of them are occupied, you're still going to make debt service, versus homeownership.

So our losses are going to be minimal and -- and -- and to Heather's point is every deal, for the newer Board members, anything over 4 million we bring to the Board as the loan committee to approve before we issue a commitment. So you'll see the deal in its entirety.

One thing I was going to bring up at the next Board meeting but maybe I should bring it up here is under the conduit scenario, under the new issue bond program, there is no risk in that. And if we act as a conduit, there's no risk to the Agency and I'm not -- I'm just bringing this up to think about this is would you want to see those deals? Because we're not going to be the lender or the underwriter. We're purely going to act as an issuer within that transaction going forward if we have no risk within the transaction. Just something to think about. Because we wouldn't be the lender. We'd be actually -- I'd be presenting somebody else's underwriting and the transaction, since they'd be putting the credit risk on the bonds versus CalHFA.

Or we could decide to put a portion of our risk on there with re-share, once we roll that -- restart that program. There's a lot of old files I'm digging up from eight or ten years ago to try to figure out how we did this a long time ago. Because that capacity was only perm lending only. It was not a construction to perm program, which is not what we've done in the last ten years.

So my suggestion under the new issue bond program would be we would primarily do all of that as conduit, because I would like to get that out to projects that can utilize it that can build the affordable rental housing that we need in California, when there are other sources that can enhance that currently.

So those are really the lending programs under multifamily that we're going to proceed -- continue to do going forward. The MHS and the TCAC consulting underwriting, we probably have over a hundred deals in my group right now, and I have folks working overtime because we're so busy right now, just with those two products alone, which is good, and gives me time, then, to work on the new issue bond program and how we can get those dollars out.

ACTING CHAIRPERSON CAREY: Okay. Unless there's something burning, I'm going to move us on to the asset management. I understand Margaret can't be here today.

MR. SPEARS: Margaret had a death in the family and was not able to be here today. There is not a lot of change in her business plan.

We have, for the new Board members, 500

properties that we don't own but have loans against that we -- we monitor a regulatory agreement. And we have inspectors that go out, and it's -- it's a very big workload. We're trying to get her staffed up to deal with some of the newer properties that are coming online.

But the one big thing is the next slide, if you can punch that for me, Bob.

MR. DEANER: I stayed to be the slide guy.

MR. SPEARS: Thank you. And you're talented in that area.

We're still pursuing the performance based contract administration. There have been a number of changes. HUD is behind schedule. That was supposed to all happen in January. I know that's a shock to many of you.

ACTING CHAIRPERSON CAREY: What a surprise.

MR. SPEARS: However, one thing that has come out of all this is I believe it's fair to say that HUD was very interested to find out why so many people were so interested in bidding on this, and it turns out that it was a -- had rather a large economic benefit associated with it. But they wised up, cut back some of those benefits. And so the economics have changed but would still be greatly beneficial to this Agency.

And personally one of the reasons why I would like to pursue it, I think the Board members share my enthusiasm for it, is because it would provide a statewide consistent monitoring of those contracts. I think that's good from a policy standpoint.

And then the other item, the last bullet item, the Citibank loan sale. We discussed that at the November Board meeting. That's moving ahead.

So that was Margaret's presentation.

ACTING CHAIRPERSON CAREY: Okay. Oh, I'm sorry, Ms. Jacobs.

MS. JACOBS: I just want to add to the asset management. I know that most of you know that with affordable housing multifamily deals we have an average of eight layers of financing, so where TCAC and CalHFA and HCD are in the same project, we alternate the inspections. That's how we save money. So every third year when we're in projects together, CalHFA goes out, TCAC goes out or we go out. And you should see how much our clients appreciate not being inspected three times a year by the State. So that was kind of an innovation that we all put in, and it seems to be working out pretty well.

MR. SPEARS: It does. It's -- it's terrific.

You know, I would make a suggestion at this point, Mr. Chairman.

ACTING CHAIRPERSON CAREY: Yes.

MR. SPEARS: While we're here and dealing with administrative items of the Agency, that we just hit item 11 really quick on the office relocation.

ACTING CHAIRPERSON CAREY: All right.

MR. SPEARS: If you could just hang in there, Mr. Deaner.

MR. DEANER: I got it, Boss.

MR. SPEARS: Thank you.

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Item 11. Sacramento Office relocation update

MR. SPEARS: Very quickly, there are two items here. One is the loan servicing move. We've discussed this before. This is a 16,000-square-foot space in West Sacramento, which we're allowed to do. Since we're not moving the headquarters there, we're permitted to locate that outside the city limits. This is net an 83-cent-per-square-foot space as opposed to being -- having all these people in the Senator Hotel at 2 dollars and whatever it is over there.

MR. IWATA: 77 cents. 2.77.

MR. SPEARS: Yes.

(Court reporter interrupts for clarification of the record.)

MR. SPEARS: We have free rent -- I can say that quickly -- and a nice item for employees, free parking, which even though some of these people were taking light rail before, they actually like having the flexibility of their car and no expense associated with parking.

The critical dates are we're going to move in on the 5th. We're going to start business that next Monday. We are going to have an opening ceremony. All of you are invited. We've invited the Secretary, Heather, to join us.

And I think that's going to be a very, very important next step. It provides a lot of flexibility, but the main thing it does for us in loan servicing is at the present time we're very cramped in space in the Senator Hotel. The loan servicing unit is fractured in various spaces all over. We're going to organize everyone in a more efficient configuration.

We're at the same time implementing a new phone system, which I've talked to Barbara about and she's given us a couple of tips about the Spanish language portion of that that we're going to try to implement. It's a very secure location, and I believe that we'll be able to work better, faster, more efficiently. It has its own mail sorting/processing roam, as opposed to mixing in with all the other mail of the Agency and sorting that all out. It just -- all across the board, it will be a much better situation.

What we are considering, moving other staff over there that work in connection with loan servicing and freeing up more space in the Senator Hotel, but -- and reducing the overall square footage that we need.

It's -- it will be a good move for us. It will save money, but more importantly, I believe we'll give much better service to our borrowers.

Next slide.

MR. DEANER: Bingo.

MR. SPEARS: Thank you.

This, again, is something that we've been working on for a very long time. We've hired a tenant representative to look for properties around the city. Again, we're trying to consolidate. We have to be located in the city of Sacramento. We have attempted to get that legislation changed in the past and been unsuccessful. We need access to light rail and public transit.

And here the critical dates, again, we've talked about this before, been in the -- you know, first of September, end of September, time frame our leases expire in the Senator Hotel and the Meridian right down the street.

We've looked at several different options. One is staying put and extending our lease. The other is that our -- that we're currently in serious discussions with is -- the Bank of the West Towers is a brand-new building right on Capitol Mall.

We were talking to 555 Capital Mall, and we talked about this a couple times with the Board. They have cut off all negotiations and become incredibly unrealistic in what they need, and we've just simply stopped talking to them.

MR. HUDSON: What happened?

MR. SPEARS: We're not really sure except that the proposal was talked about between the brokers, between us and local folks, and then it went to San Francisco for the majority owner to look at, and at that point things went south.

So another -- another possibility that's being talked about is a very nice LEED gold certified building that's between Garden Highway and West El Camino exit just north of the American River on the way to the airport. It really is a very nice building for a lot of reasons. It would be very efficient for us to move into from an architectural standpoint. I think it fits with our mission of sustainability and -- but it is a brand-new building. Free parking, again, for the employees. The rent rate would be about the same as downtown. I attribute that somewhat to the sustainable features of the building, the green features of the building, but because I believe that we can organize things more efficiently because we have moved some of our folks into West Sacramento, we would ask for less space there than what we currently rent, so we would save money in the long run.

That's the latest and greatest. I'll tell you my current thoughts, and I realize this is a public session, I become more concerned about moving into a brand spanking new building and new offices when we are announcing losses and that sort of thing. I'm a little concerned about that. I believe that we could make ourselves more efficient in our current space and extend, and that's an option.

I would be very happy to hear the thoughts of the Board.

MR. GUNNING: Is there admin in Senator or is Senator --

(Court reporter interrupts for clarification of the record.)

MR. GUNNING: Is there any admin located in Senator, or is all admin in Meridian?

MR. SPEARS: Our business services and that sort of thing? We have business services, the mailroom, all that is in the Senator Hotel. HR, those functions are in the Meridian.

MR. GUNNING: So if we were to stay, we'd still be split? We can't fit everyone in Meridian?

MR. SPEARS: There's some reconfiguration that could go on.

MR. IWATA: There is some -- we're in negotiations now with the Meridian and the Senator, and they both have acknowledged that there are spaces available that other tenants will be -- their leases are expiring. However, to facilitate everybody and consolidate everybody in one, either at the Senator Hotel or the Meridian, I don't think that's possible. They don't have enough space that's going to be freed up for everybody to -- to move into one -- one spot.

MR. SPEARS: There was a time when I thought that we could rent the space in West Sac and move things around and re -- do some reconfiguring, ask for a little more space at the Senator and we could leave the Meridian and move everybody back to the Senator. After talking to Howard, after talking to the architect, I don't think that's possible. We could minimize it.

MR. SMITH: Do we have a projected cost of the move?

MR. SPEARS: The one nice thing about the other options, they have allowed for the cost of moving. So the --

MR. SMITH: I've got to believe that's built into the price, so the real question is what's the price -- what are we saving by staying?

MR. IWATA: It's approximately a million dollars.

MR. SMITH: A million?

MR. GUNNING: By staying.

MR. SMITH: By staying.

MR. IWATA: No, by leaving.

MS. MACRI-ORTIZ: We save a million dollars by leaving?

MR. IWATA: Yes. It's about a million. When you start talking about --

MR. SPEARS: Yes, net. He was asking about the cost of the move itself.

MR. IWATA: Oh.

MR. SMITH: So the lease rates where we're going to are cheaper than the lease rates where we are?

MR. IWATA: It will be the same -- well, it depends on where you're talking about because we're still in negotiations, so I don't have a bottom-line figure.

MR. SPEARS: Ruben, I would say when we were talking about 555 Capital Mall, that was definitely true.

It has been true of some other buildings that we've eliminated. As we've looked into their structure, it would cost too much to basically upgrade it because the buildings were so old.

That's not true with the Bank of the West Tower and Natomas. The savings that we would generate would be asking for less space. And the savings we would get would be moving a few more people to West Sac and a more efficient organization and use of the space that we do have.

ACTING CHAIRPERSON CAREY: What about the length of obligation we'd have to enter into with -- with -- to stay where we are or --

MR. SPEARS: I'm not -- I'm not sure what that --

MR. IWATA: Again, we're in negotiations, and we're looking at where we're at right now options for a short term, three to five years, versus a longer term, ten years. The other places where we were talking about with Natomas and the Bank of the West Tower, they're looking at approximately ten years minimum.

MR. SMITH: I've got to assume that the rates in Sacramento are lower now than they were, like the rest of the state, or is Sacramento unique?

MR. SPEARS: I'll let Howard answer that.

MR. IWATA: The rates compared to?

MR. SMITH: Well, I'm just saying that -- that this is -- you know, normally if you go into a lease when the rates are low, which in most of California the rates are pretty low right now, this is a great time to enter into new space.

MR. IWATA: Right. Right.

MR. SMITH: Three years from now who knows what those rates are going to be?

MR. IWATA: Correct.

MR. SMITH: And so from a planning standpoint, this is the time to seal in a long-term deal if you're -- obviously no one can predict the future, but I would think that given the way things are -- and I don't know if Sacramento is unique because obviously it's the state capitol and maybe there's a shortage of office space, I don't know.

MR. IWATA: Well, in the downtown area, it seems like there isn't all that much space to accommodate our size. There's little pockets throughout the downtown area. There's more open space on the -- more on the outskirts area.

MR. SPEARS: There's been a recent development, too, Ruben. A lot of this in Sacramento is a function of what government agencies are moving around at the time, and some of you have been aware of the drama surrounding the Board of Equalization's headquarter building. It's a 20-something-floor building. It's a -- mold, windows just suddenly falling out of their frames to the street below.

ACTING CHAIRPERSON CAREY: Is it energy efficient?

MR. SPEARS: It's better air-conditioned now than it was.

They have moved out of that building. I was riding down on a plane with a friend who -- the California Restaurant Association is an investor in one of the newer buildings on the mall. He said they just had a huge group of BOE employees move into their building, and they're out looking for space to take 23 floors of people and scatter them around. In fact, they are talking to a number of people, the same people we're talking to.

MR. HUDSON: So given that there's so many moving parts, I think your specific question would be -- was about a new building. To me, a new building is not the issue. The issue is what's the most cost-efficient productive decision we could make. And if that's a new building, I would go with the new -- I wouldn't let the new building dictate, oh, we just can't go into a new building because it sends the wrong message. I think we have a fiduciary responsibility to be, you know, as efficient as we can. I think what it boils down to, when all the information is in and you can compare, if the best option is a new building, I would go with a new building.

ACTING CHAIRPERSON CAREY: How do other Board members -- is that a commonly held perspective?

MR. GUNNING: I would echo that. I think the perception that here we are moving, but if it's -- if it's cost reduction, I think that it makes sense. It's a -- it's an effort to reduce costs for the Agency, not to be extravagant.

MS. PETERS: And I would think that we could make that clear in any press releases or public statements we make about the move, is just set forth why we're doing it and what our savings are.

MR. SPEARS: May I ask another question? Is there any concern, given everything, of -- these other two options are asking for ten-, even 12-, year leases.

MR. GUNNING: Lock in low.

MR. SPEARS: Okay.

ACTING CHAIRPERSON CAREY: That makes great sense, particularly if we're able to reduce the footprint at a new building at a lower rate or even at the same rate by switching staff to the other location, if that plays out economically.

MS. PETERS: Jack, we can't hear you.

ACTING CHAIRPERSON CAREY: Can you repeat your comment?

MR. SHINE: I said if you move into a new building, what better time to try and get an option on adjacent space. Because there's two choices: We make it or we don't. And if we do, the odds are we're going to be adding people.

ACTING CHAIRPERSON CAREY: Are we going to vote on that, Jack?

MS. PETERS: I vote we make it.

ACTING CHAIRPERSON CAREY: Yes, I do too.

MR. SHINE: I second that.

ACTING CHAIRPERSON CAREY: Okay.

MR. SPEARS: You're making Tom nervous. Thank you very much. I appreciate the comments.

ACTING CHAIRPERSON CAREY: Hold on, I'm getting that look. Okay. All right.

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Item 7. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing applications to the California Debt Limit Allocation Committee for private activity

bond allocations for the Agency's homeownership and multifamily programs (Resolution 10-03)

ACTING CHAIRPERSON CAREY: Let's move back to item 7, which is --

MR. DEANER: I'm passing the baton back to Bruce.

ACTING CHAIRPERSON CAREY: -- CDLAC authorization.

MR. HUDSON: Are there any workmen comp laws that say you have to feed people by a certain time?

MR. GUNNING: Not applicable to the Board.

MR. HUDSON: Not applicable to the Board. I kind of knew that.

MS. PETERS: Actually, on that note, I was sitting here having the same thought, that it seems like every single meeting we're running over, and justifiably so because there are serious issues to be considered. Moving forward, can we just as a routine schedule the lunch break that we occasionally have? Because it's very difficult to concentrate.

ACTING CHAIRPERSON CAREY: Yes.

MR. GILBERTSON: Okay. Back to the routine annual authorizations from the Board. This one --

MR. HUDSON: Very funny. Very funny.

MR. GILBERTSON: This is actually a little simpler. This is another financing resolution. We've talked some today about the California Debt Limit Allocation Committee. You know, one of the things that makes CalHFA important is that we have the ability to issue tax-exempt bonds. We don't control that right. CDLAC does.

So this is simply a resolution that the Board authorizes staff to submit applications to CDLAC in the following amounts. The amounts are larger than we might otherwise expect to apply for. Again, historically the presumption has been that the Board would want us to have a higher limit to apply to CDLAC than we might otherwise come up with. And part of this ties into CDLAC's process historically of having carry-forward allocation at the end of the year. Otherwise you'd have to have an emergency Board meeting, potentially, to convene.

So that's the gist of it. It's $900 million for the single-family program and up to $400 million for the multifamily program.

I would open it up to any questions. I did attach, and it's in the memo and the Board as well, the table that shows the last five or six years' historical amounts that we have received from CDLAC.

Are there any questions? Lynn.

ACTING CHAIRPERSON CAREY: Oh, Ms. Jacobs.

MS. JACOBS: Have you used all your allocations every year?

MR. GILBERTSON: No, in fact, we covered that earlier. If we go back -- let's see if I can find it here. On page 3, when we talked about resolution 10-01, the amounts at the bottom of this slide actually total to almost $1.8 billion. That is the single-family volume cap that we have received over the last few years. And I showed the dates by which it needs to be used.

And we have a similar amount that we just received for the multifamily programs. It's not quite $200 million received in December 2009. Should be good for a three-year period.

ACTING CHAIRPERSON CAREY: Yes.

MS. JACOBS: What does it cost? I mean, do we have a -- are we incurring a big cost by -- by getting an allocation that we don't use?

MR. GILBERTSON: No.

MS. JACOBS: Okay.

MR. GILBERTSON: No, it's minimal. I don't know the exact amounts. There's an application fee, and then when you use it, you actually --

MS. JACOBS: Incur.

MR. GILBERTSON: -- incur some costs.

ACTING CHAIRPERSON CAREY: Other questions?

This is a public hearing. If there's anyone in the audience that wishes to address us on this matter, please indicate.

We're now ready for a motion.

MS. JACOBS: Move approval.

MS. PETERS: Second.

ACTING CHAIRPERSON CAREY: Roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

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

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Item 8. Discussion, recommendation and possible action regarding amendments to board resolutions authorizing the financing of loans in connection with the Bay Area Housing Plan (Resolution 10-04)

ACTING CHAIRPERSON CAREY: Item 9, Bay Area Housing Plan, extending the authorization.

MR. GILBERTSON: Yes. So one more financing resolution. This has a lot of history, and so I'm going to back up for the benefit of the newer Board members.

The Bay Area Housing Program is something that we got involved with about five years ago. The California State Legislature approved some legislation that authorized the closure of the Agnews State Hospital, where some 228 individuals are cared for that are severely developmentally disabled.

CalHFA was mentioned in the legislation. We were approached as to whether or not we could be a lender and finance group homes, because these are going to be community-based homes for the individuals who would be moved out of Agnews. Many reasons why Agnews needed to be closed: Seismic risk, the age of the facility, all of those things.

So with -- with good intent and good faith we moved forward, and I think we first signed a whole series of lending agreements with the state Department of Developmental Services and three of the regional centers that have the oversight for these individuals and care of them. And that was in about March of 2005.

This Board then received briefings on the plan, the loan financing, for these homes as well as the financing aspect over a period of times. I've listed here the resolutions of this Board as it related to authorization to issue debt to finance these homes. First approached the Board in 2006. We had to extend that authorization in 2007. We came back one more time in 2008.

And the story behind this is that we need the cooperation of both the state Department of Developmental Services and we need the cooperation of the regional centers to get to the marketplace. The marketplace, as we all know, beginning in 2007, took a turn for the worse.

And so where we thought we could have credit enhancement from a municipal bond insurer to support a relatively low rated credit -- because the loan to values on these homes are very, very high, upwards of 150 percent or 170 percent. That didn't avail itself to the Agency, so we're forced with an environment where the cost of the debt service on the bonds that we would issue would be -- would be much higher than the expectation that anybody ever had, at the state level, the regional centers. And these are the people that are appropriated the money to care for these people.

So we went into a period of time of false starts and stops. The Treasurer's Office was involved at a couple different times in large kind of discussions. We believe now that, you know, the regional centers and other interested-party stakeholders have looked at all other options. They were trying to find somebody to buy the loans from CalHFA because at this point we're sitting with -- another side here.

There's 60 loans. It totals $91 million. There's one loan for each of these properties. We own the loans. We financed those on an interim basis with a short-term credit facility that we receive from the Bank of America. We need to get them off that short-term facility. It simply doesn't work over the long haul.

So the resolution in front of you gives us another one-year period for which we can issue debt that would be secured solely by the loans, and the loans really work because of the appropriation from the State of California to the -- to DDS. DDS funnels that on to the regional centers. And that funding effectively funds a lease obligation that would be the collateral for the bonds.

Quite complicated. And if you want to see complicated diagrams, Mr. Hughes created one a few years ago. We could share that with you.

The point of this is that we think we have an agreement in general. We have a meeting coming up in the first week in February to move forward, and hopefully we can get to the marketplace by, you know, late spring, issue the bonds that are necessary so that we can finance these loans with bond proceeds on a limited-obligation basis where the Agency would not have risk. The interest rates are likely to be somewhere for the tax-exempt component perhaps 9 percent, and taxable component could be as high as 15 percent.

These are -- they were double-B rated credits a year ago. We'll have to go back to the rating agencies. With some of the state issues, I'm not sure where they will come out on that, but it certainly is going to be a bit of a challenge, but we need this authority to even have the opportunity to issue the debt.

Any questions?

MS. MACRI-ORTIZ: Who exactly are the borrowers? I mean, who's owning those group homes?

MR. GILBERTSON: The group homes are actually owned by --

MR. HUGHES: Bruce was alluding to the complicated diagram in this transaction. I can assure you it's really complicated. At the end of the day, the actual borrowers are limited liability companies that are managed by nonprofit organizations that were formerly affiliates of the regional centers. They're basically entities set up to own these properties, but they are nonprofit.

The whole idea of the transactions from the State's point of view was to stop the practice of paying for leasing on group homes and then have the owner sell the group homes. These are homes now that are dedicated for the life of the home to the -- housing developmentally disabled people. In other words, the State wanted to pay once. And the financing scheme that was developed has the actual borrowers be these essentially affiliates of the regional centers, real estate affiliates of the regional centers.

The funding comes from the State. This is really -- at the end of the day, although these are loans that are secured by real property, they're underwater. This is fundamentally not a real estate transaction, it's a state appropriation credit. It doesn't work as a stand-alone real estate. It was never intended to work as a stand-alone. The ultimate source of payment is the State of California.

MR. GILBERTSON: One more point, I think, especially for the newer Board members, because we've talked about this many times. This is a perceived risk that the rating agencies always bring up when they talk about CalHFA's general obligation credit rating because they worry that these loans, we're going to be stuck with these loans. The facility from Bank of America has an expiration date. It's February of 2011. We will make every attempt to renegotiate and extend that, but absent that, then we're going to have to fund the $91 million.

And so until we resolve this with a permanent financing source, like bonds that we issue for this purpose, it's going to be something that the rating agencies are extremely concerned about.

So I -- I'll let Katie speak if she has anything else to say from a broader state government perspective, but we have really spent a lot of time trying to work through the totality of options that the State might have in this space to try to deal with this. I think we're close to having a consensus that we should just move forward and issue the bonds, even though the rates are going to be high, because it's the best solution that anybody can come up with.

MS. CARROLL: Right. And we at the State Treasurer's Office, did look at this, given that it's primarily a state credit, to see if there were -- was a better way to issue it, where, you know, might have even taken legislation to move it from CalHFA to some -- maybe there was a more appropriate issuer, but the fact of the matter is the way it's structured and how long -- you know, how far it's gotten along, that's really not possible. We fully support the Agency's -- the staff's recommendation to go ahead and sell.

MR. HUGHES: I should probably -- again, we sometimes forget we have so many new Board members without the history on this. The reason why these are -- the loan to values are very, very underwater, 150 percent or they started life in many cases over 200 percent, was that these were normal single-family homes acquired and completely rehabilitated, remodeled, to accommodate severely disabled people, which meant in some cases, you know, the widening of walls, putting oxygen in walls, just things that you would never do in a normal house. Very expensive process.

ACTING CHAIRPERSON CAREY: Again, the action here today is to extend by one year the previous action.

MR. GILBERTSON: Yes. There's a bullet. Resolution 10-04 would authorize a one-year extension for the issuance of bonds in connection with this program. And that -- and that extension would go until 30 days after the first Board meeting in 2011. And we -- at this point, we have every intention and expectation that we'll probably complete this no later than summertime 2010. We've said that before, however.

MS. JACOBS: I'd like to move approval, please.

MS. PETERS: Second.

ACTING CHAIRPERSON CAREY: Okay. We have a motion and a second.

If there's anyone here in the audience who wishes to address the Board on this matter, please indicate.

Seeing none, we will have roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 10-04 has been approved.

ACTING CHAIRPERSON CAREY: Okay. I'm going to suggest we press on through item 9, which is really the last issue.

MR. SPEARS: I believe it is the last item.

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Item 9. Report, discussion and possible action regarding the Agency's financing and program strategies and implementation, and loan portfolio performance, in light of financial marketplace disruptions

ACTING CHAIRPERSON CAREY: Staff report.

MR. SPEARS: Staff report. And we have three issues here that these are just updates for the Board.

The first has to do with the second part of the federal assistance plan. We've already dealt with the new issue bond program. That's in place.

The other part was a temporary credit and liquidity facility. Tim's going to give you an update on that. Very simply, it's been implemented. We're wrapping up the final parts of this in January. It's been very beneficial. We'd like to give you some idea of the magnitude of the benefit.

Lori has finished the first quarter financial statements for the housing fund. We'd like to show you the results of that quickly.

And then finally -- and we may just point out that there's a report on the loan performance in -- under the report -- I forget which tab it is. I think it's G -- that is available for -- for you to look at, if anyone has any questions at that point.

But let me start with Tim. Then we'll move to Lori and see if anybody has any questions on the loan servicing -- or the -- I'm sorry the loan performance.

MR. HSU: There's a report in the bind -- there's a report in the binder regarding the TCLP program. Over the next four slides here, I'm going to talk about the bonds that we have in our portfolio that have financed our activities over the years. And over the last 18 months or so, most of the times when I come up here to present it's mostly bad news. And so finally I think that the next four slides actually have a good story.

The TCLP, Steve mentioned, is the second part of the federal assistance package that we received back in October. And what this allows us to do is to replace all the standby purchase agreements that we have as back -- as a backstop on our variable-rate bonds. These -- to make a long story short, these standby purchase agreements, or these liquidity facilities, are actually -- are really the backstop that allow these variable-rate bonds to trade in the money market eligible space so that they can continue to re-set as variable-rate bonds.

This is a tremendous -- without mincing words, a tremendous benefit to our viability going forward. I have here summarized four reasons -- which again, there's a more detailed write-up in the binder -- four major reasons why this is a tremendous benefit.

First of all, it gives -- it completely eliminates the rollover risk of these facilities for the next three years. We had mentioned that we have about -- we had about $197 million of facilities that expired, and we had basically staring in our face $2 billion of facilities that we would have needed to review this year.

And the reason why that's really, really important is that when they don't renew and they expire, they become something we refer to as bank bonds. I'm giving the Reader's Digest version of all of this stuff because this is bad news that's behind us that we don't have to learn it, in some sense.

And when they become bank bonds, you really have to accelerate the repayment schedule of the bank bonds. And in 2009, we have repaid on an accelerated basis about $60 million of this. And if we had carried some of these bank bonds into this year, those numbers would have been a lot bigger.

And the third reason why not having the bank bonds or having done the substitution therefore avoided the bank bonds is that we would be able to restore the reimbursement relationship that we had talked about earlier between the special obligation to the general obligation. And on 2/1/2010 we expect that dollar amount to be about $118 million.

And the fourth reason is that with the Treasury and the GSE's backstop on these bonds, these bonds now are considered as the gold standard of these kind of bonds in the marketplace, and they're trading extremely, extremely well. The early indications are that they're basically setting at the benchmark rates. So this should save us a lot of money in terms of the cost of funds on these bonds.

In the spirit of transitioning from bad news to good news, I'm hoping this is the last time I show this chart. This chart is a history of our bank bonds since the inception of -- what I have referred to as sort of the inception of the credit crisis as being when Lehman Brothers filed bankruptcy.

You can see at its height we were staring at bank bonds that were at the level or nearing $1.2 billion. As of last Wednesday, we got rid of all the bank bonds. And to today we don't have any bank bonds, and we are hoping to continue that trend in the near future and also into the next -- beyond three years as well.

This chart, however, as long as we have swaps in our portfolio, this has become one of the major tools that we use to monitor to early -- to Paul's earlier point about risk management and risk mitigation, we use this chart basically to monitor the performance of our swaps. So this chart -- as long as we have swaps in our portfolio, this chart will be with us.

What this chart is showing is a history of our basis risk -- basis mismatch risk. What basis mismatch is is the difference between the bond -- the difference on what we're paying on the bonds and what we're receiving from our swap counterparties. So in an ideal world, if what we're paying is equal to what we are receiving from our swap counterparties, then our cost of funds will simply be the fixed rate that we're paying to our swap counterparties. So that's the ideal world of a perfectly hedged swap.

But unfortunately over time, because of all these disruptions we talked about where -- where the -- the bank that's providing standby purchase agreements' credit has gone sour, where when we have experienced credit events ourselves, our bonds have not been trading very well and therefore you can see that in the payment year 2009, our basis risk was 130 basis points or when you translate that into dollars was nearly $50 million.

And what we're showing here is also --

(Cell phone ringing.)

MR. HSU: -- a periodic basis mismatch amount. I don't think that's me. And what we're showing here is -- so for example, in the payment year 2009, the basis mismatch amount was $50 million. But to be sure, these are periodic amounts, so the total amounts, the total cumulative amount of basis mismatch amounts that we have experienced up until 2009 was actually in excess of $110 million.

But the good news here is that what we're showing in the striped bars, if you will, that with the implementation of the TCLF, we expect this basis mismatch amount to go back to a more normal level like when we used to experience back in the 2003 and 2004 era.

Lastly, this chart is a very high-level view of our bond portfolio. When the credit crisis hit, there was a lot of questions of tying together about what people were hearing -- especially Board members were hearing in the headlines versus what we had in our portfolio, and we made this chart to show some of the multiple attributes that we have on our bonds and the cross section of these attributes. And the cross sections are meant to highlight where, you know, the troublesome areas were.

So on the left-hand side what you're seeing is our bond portfolio as of October 1st, 2009, sort of the before picture of the TCLF, before we implemented the TCLF program. And on the right-hand side what you're seeing is after we implemented TCLF program. You can see that we have a lot less bonds that I have colored in red, therefore we have more bonds that are less worrisome.

Some of the highlights here I'll point out is that you can see in blue there that $2.4 billion, though they were less troublesome. When we mentioned that we have about $2 billion of standby purchase agreements that are going to renew this year, they were embedded in that $2 billion.

So the upshot here is basically demonstrating that our portfolio after we implement TCLF has a lot less areas in which we have less concern over.

I think Lori's going to talk a little bit about our financial results.

MS. HAMAHASHI: Okay. This is our balance sheet as of September 30th. And during the quarter, our assets did decrease by approximately 390 million. And that was due mainly to the disbursement of funds during the 8/1 debt service and early redemption of the bonds during that period.

We also saw a decrease in our total liabilities of about 323, and 219 million of that is related to the bonds payable number going down.

Our fund equity for the quarter decreased by 66.7.

If you look at the next slide, our income statement. What happened during the quarter was that we're reporting a loss of $76.6 million.

And we do have another slide following this that shows exactly what the components of the operating loss for the quarter were. And first one was the increase in the allowance for loan losses of 26.3, and that was from the increase in the GAP loss reserve amount.

In the basis mismatch, I know that Tim talked about, you know, this is what we were experiencing for the quarter related -- for the period 7/1 through 9/30, so we had to report this as a loss also.

And during the quarter, we terminated some interest rate swaps for a total of 39 million. They were swaps that we had with CitiGroup Financial Products and with Merrill Lynch.

MR. HSU: I would just add that the termination of the swaps, they were associated with our efforts at increasing the collateral thresholds, that -- that that prior to the current concerns regarding the performance of the loans was also a concern we had because with the threat of the downgrades, there was a potential that we would have to post a certain amount of collateral to the counterparties that would -- that would be quite large.

So in an attempt -- in an effort to increase the collateral thresholds with our counterparties, the -- the negotiation that we underwent with them required that we terminate certain interest rate swaps with them currently, and in return they gave us much higher collateral thresholds on our swaps.

ACTING CHAIRPERSON CAREY: Ms. Peters.

MS. PETERS: Just a quick question on the termination of interest rate swaps. Is that going to be an ongoing fluctuating number, or are we done with that now?

MR. HSU: In terms of the amount of termination, that is done. The mark to markup on the remaining portfolio of swaps is fluctuating over time, but the thresholds that they gave us in return, the higher thresholds they gave us in return, is also fixed.

But in many part, in most part, what we did was that we set those thresholds at such a level that posting -- even if it were to post with quite dramatic fluctuations of the swaps, the amount that we're posting wouldn't be as large as we -- you might recall some of the numbers that were showing were amounts that were quite large. And the amounts that we're posting now -- as you know, interest rates are extremely low these days, and the amounts we're posting now are very manageable compared to some of the numbers we were staring at before.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: I have a real basic question. On the current assets, the cash and investments, how much is cash, and what kind of investments?

MS. HAMAHASHI: Most of our investments right now are with SMIF, the majority of it.

MS. JACOBS: So are they money market or what? What is it?

MR. HSU: It's being -- it's SMIF, which is being invested by PMIA. So that's the --

MS. JACOBS: Okay.

MR. HSU: -- State's pooled investment fund.

MS. JACOBS: Okay.

MR. HSU: So it's effectively a money market.

MS. JACOBS: Okay. And what's the breakdown roughly? Do you know? How much is cash, and how much is money market?

MR. HSU: Oh. I think that in terms of cash cash, we have very little because it all gets sweeped into SMIF or this fund that's managed by PMIA.

MS. JACOBS: Right.

MR. HSU: If it's less -- if it's more than a thousand dollars, I think there's an automatic sweep into SMIF.

MS. HAMAHASHI: That is correct.

MR. SPEARS: Surplus Money Investment Fund.

MS. JACOBS: So there aren't any other investments in there --

MR. HSU: We do --

MS. JACOBS: -- besides PMIA?

MR. HSU: No. We -- we -- in the indentures that we have, such as HMRB and multifamily 3, we do have guaranteed income contracts with banks, in most part. And some of those banks' ratings as they have deteriorated we have terminated the GICs and gotten the cash back. And when we do get the cash back, we do end up giving it to PMIA to invest again.

MR. GILBERTSON: One other way to think of this, there is a report in the back because annually we produce an investment report for the Board. It's on page 207.

MS. JACOBS: Okay.

MR. GILBERTSON: And so it will show you -- at the time, because this was June 30th rather than September 30th, but it shows you the composition, I think if you look at page 208.

I think -- I'm just anticipating where you're going. You're seeing a big number, $2 billion. We have to remember a large portion of that is under the lien of certain trusts, which are these bond indentures that the trustee has the right over. We have -- we have the ability to use some of this, but it's not all free and clear to the Agency for any purpose.

And some of the Board members have heard that from us before, but I just want to make sure that everybody's not thinking we have, you know, effectively $2 billion that we could do anything with. A lot of this is pledged to pay debt service on bonds as they come due, and it's an accounting statement, so you have accruals going on inside.

MS. JACOBS: Okay. So how would I -- how would I know how much is available cash, about?

MR. GILBERTSON: And we -- we -- I'd say today it's a little over $200 million, 215, thereabouts. And that's part of what we're going to brief you on at March, is certainly that liquidity position that we have, so.

MS. JACOBS: Okay. Yes, I think that would be very useful information. Because when you just look at this summary, it's -- it's --

MR. GILBERTSON: You have to really --

MS. JACOBS: -- like why is there a problem?

MR. GILBERTSON: You have to understand all the elements of this, the financial statements.

MS. JACOBS: Well, I'm glad you're going to help us do that.

MR. HUGHES: Some of the cash that's in there, too, are also funds which are completely restricted, such as Prop 63 funds to run the MHSA program. They're not ours. They're contract administered. We have other funds like that. We can't touch those for our own purposes.

And then, of course, we have a lot of assets as part of our equity, and those assets are nonliquid loans, long-term loans. And so --

MS. JACOBS: Right. I mean, that's why -- but I'm just looking at the cash and investments line. Loan receivables, I get.

MR. HSU: Later in -- in the past when we had -- last year when we had those discussions regarding the threat of the swap --

MS. JACOBS: Right.

MR. HSU: -- collaterals, in those presentations we did show the net cash that the Agency has, which hovers around $200 million or so. So we --

MS. JACOBS: Okay.

MR. HSU: We would attempt to re-create that.

MS. JACOBS: Okay. That would be great. Thank you.

ACTING CHAIRPERSON CAREY: Okay.

MR. SPEARS: The final item under this tab is the loan portfolio performance, and I would just direct your attention back under tab G, which is very close to the investment report.

And, again, this is -- this is enough data to slice and dice just a million different ways, but if you'll notice on page 217, it's under tab G, the bottom right-hand corner, the delinquency information about conventional loans in total. I remind you that the exposure of risk to CalHFA is with the conventional loans. FHA loans, a hundred-percent guaranteed. So we track this figure. It's 15.52.

To give you an idea, that is a reconciled number from October. The September number was about the same. And the November 30 unreconciled data that I have that is provided to staff, that's gone up by about 30 basis points. It's about 15.8.

And what I've noticed is a trend that whereas between April and September that number right there went up by 60 basis points every month, every month, it's a very steep curve, it seems to have leveled off a bit, where I'm noticing a slight improvement. But I would caution you that this is only -- I don't know that it's long enough for a trend, but I see decreasing numbers of loans from the 30- and 60-day categories, especially on the conventional side, but even on the FHA side.

So we have fewer loans in the last two months that have gone into the 90-plus category. We're still working on that 90-plus pool of loans to do modifications, short sales. Unfortunately, some of them are foreclosures. But I have seen some slight improvement. I will caution you that in January and February traditionally -- I've talked to Chuck about this a lot and Rhonda Behr (phonetic), our loan servicing director -- you're going to see a bump up just because that's when people get their Christmas bills on their credit cards. That's when they're planning their taxes. That's when they're looking at finances. And there may be more strategic defaults. There may be more folks who just decide they can't make their payments anymore.

There was also a moratorium during the holidays, as we traditionally do, and I think that's pretty standard for the loan servicing industry, on foreclosures and collection actions during the holiday season, and that will cause us to go up a bit. I'm hopeful it's not as steep a curve as it has been in the past, but I just thought I'd bring you up-to-date really quick.

MR. HUNTER: I'm glad you brought that up because that was one of the things I was looking at, trying to figure out is how, where, is there a place in these reports where I can see that trending or would I have to go back and physically pull out my reports from last month?

MR. SPEARS: We can make that available.

MR. HUNTER: It would be very helpful.

MR. SPEARS: Okay. Will do. Well, there is a graph.

MR. GUNNING: 219.

MS. JACOBS: 219 seems to be a start, anyway.

MR. SPEARS: It's not broken down, Jonathan, the way I just presented it, but it does give you an idea of the trend over time but only in the 90-plus category. I started a binder some time back of --

MR. HUNTER: Well --

MR. SPEARS: -- trying to divide this.

MR. HUNTER: -- it's year to year.

MR. SPEARS: Yes.

MR. HUNTER: The graph, this graph, is year to year, right?

MS. JACOBS: Yes.

MR. SPEARS: Well, it has monthly --

MR. HSU: It's plotted over quite a long period of time.

MR. HUNTER: Oh, okay, okay, okay.

MS. JACOBS: It's quarterly, I think.

MR. SPEARS: But I can get you more detailed information.

MR. HUNTER: Great.

MR. HUDSON: Why is the information so dated, like October?

MR. SPEARS: My understanding is part of it is because we -- our fiscal services folks -- maybe Lori can shed a little more light on this. We have a number of outside servicers. 60 percent of our loans are managed by outside servicers, and we have to go through a process of getting their information and reconciling it to our own books, and that takes some time. I wish our accounting system was more responsive. We're in the process of updating it, and it will be better in the future.

But I don't know, Lori, can you shed any more light on the time that it takes?

ACTING CHAIRPERSON CAREY: There's been some improvement in the outside servicers.

MR. SPEARS: Yes, it has -- it has improved. They were sending us tapes in the mail, and now they're transmitting that electronically. It's improving, but it's not to the place where I want it to be just yet.

MR. HUDSON: You're just now looking at November, and it's not finalized. So you're about -- there's about a 60-day lag?

MR. SPEARS: Yes.

ACTING CHAIRPERSON CAREY: Other questions or comments related to this or other pieces of the reports?

MS. MACRI-ORTIZ: I have just one question with respect to the loan companies that are listed here. Are they generally geographically based, or are they all over the state in terms of where they're doing their business?

MR. SPEARS: On page 218?

MS. MACRI-ORTIZ: I'm on page 218, yes.

MR. SPEARS: Those are loans throughout the state of California.

MS. MACRI-ORTIZ: No, but I mean the individual companies, are they statewide or are they in geographic areas?

MR. GILBERTSON: Well, I'm sure they have a concentration area, but some of these names are very large, like Bank of America Countrywide.

MR. SPEARS: BAC is Bank of America Countrywide.

MR. GILBERTSON: I don't know. It's really going to be dependent on where they have their individual offices. You know, Guild, for example, some of these loans are actually purchased and they're servicing them after they've acquired loans that were originated by others. So I don't think there's a lot of correlation, but there could be some.

MS. MACRI-ORTIZ: Just in terms of the difference in the -- if you look at the delinquency rates at the end, it's quite a span.

MR. SPEARS: Yes, it is.

MS. MACRI-ORTIZ: And I'm just wondering if that's geographic, an indication of, you know, geographic area or are --

MR. GILBERTSON: One of the things that we know we've observed is that some of the servicing operations are actually outside of California.

MR. SPEARS: Right.

MR. GILBERTSON: And so then they have different hours and so that's been -- and typically, I don't know if it's continued, but you have higher delinquency ratios if the servicing operation is in Missouri or someplace. Because they have a different -- they're not necessarily trying to reach our borrowers at 7:00 p.m. California time.

MR. SPEARS: Chuck may have --

MR. MCMANUS: There's a lot of variables underneath those, the fact that these servicers have -- there's a book of business. They're all before 2005, the delinquency rate is way down. If they're all 2006, it's to the moon. So there's loan to value differences, if they're all 197 LTVs or if they're all FHA. So you can't blame the servicer necessarily for that delinquency rate. It's the loans they took upon to service. They're not necessarily originators. Most didn't originate most of what they service. And the Bank of America's really mostly Countrywide that they've acquired.

So it's not an easy question to answer. There's too much noise underneath.

MS. MACRI-ORTIZ: I think the only thing is, I mean, when we're talking about a business plan moving forward and how much of the servicing are we going to take in-house and all, I think the information -- there's probably some really valuable information here if we could just take a look at it. But whether you can even peel that off, I don't know.

MR. MCMANUS: We have delinquencies by 30, 60, 90, by county. I mean, we have a lot of information geographically. But we are a statewide lender.

MS. MACRI-ORTIZ: Yes. No, I'm just saying if you can put county and lender together, I think that might give us a better picture of what's really going on.

ACTING CHAIRPERSON CAREY: Okay.

MR. GILBERTSON: You know, maybe -- maybe on that topic, Steve, we could -- if Board members have a specific request for a way to see data as it relates to the portfolio, we will do our best to try to provide it at the next meeting.

So I think we have a sense of what you've asked for, Barbara, is the lender by county and delinquency kind of totals.

MS. PETERS: One more --

ACTING CHAIRPERSON CAREY: Oh, sorry.

MS. PETERS: -- specific request on information. Since such a high volume of our loans are being serviced by Guild and by Bank of America Countrywide, I'd like to have some input onto -- as to how those contracts are going, if -- if you think delinquencies in those particular two servicers are so high for any other reasons than Chuck just mentioned, I think we'd like to drill down on those two servicers and their performance a little bit more.

ACTING CHAIRPERSON CAREY: Good point.

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Item 13. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Other Board business?

Let me -- we were just thinking a little bit earlier about the schedule. The meeting is scheduled for March 11th. There's information that we -- that is destined for us. We don't know that it will be complete at that point, but it will be in draft form. We've talked about a meeting on the 25th. I'm also realizing, as Steve, the following meeting, the May meeting, is the meeting at which you traditionally adopt the business plan and adopt a budget.

And so handing this to the staff to work through but with the Board's willingness, I'm going to suggest that we try to keep both of those days open, the 11th and the 25th, that the potential would be that we would meet on the 11th, get the reports, get the information, continue the meeting to the 25th, if necessary, for some of the more business plan related discussions or however. But it seems that we have a fair amount of information, follow-up and discussion between here and adopting a business plan in May.

MS. PETERS: Would the March 25th meeting be appropriate for the value add discussion, or is that too soon?

MR. GUNNING: Are we keeping the 11th?

MS. PETERS: Are we doing both the 11th and the 25th?

ACTING CHAIRPERSON CAREY: My --

MR. GUNNING: Keep them the same as it is now.

ACTING CHAIRPERSON CAREY: My suggestion is on our calendars we keep both dates open and allow the staff some time to work on agendas and scheduling and see whether it makes sense to use both of those dates as a way to cover the ground that we seem to --

MS. JACOBS: Are they both in -- are they both in Sacramento?

ACTING CHAIRPERSON CAREY: Both in Sacramento.

MR. GUNNING: And then value add we could do in May, right?

ACTING CHAIRPERSON CAREY: Well, it's on the list of items. I kind of think we need to give the staff the room to figure out what they can pull together for us in a relatively short time.

MS. PETERS: Yes, I'm just thinking that we probably want to have our debate about value add before you adopt a business plan.

ACTING CHAIRPERSON CAREY: Exactly.

MR. GUNNING: Right.

ACTING CHAIRPERSON CAREY: Yes. Yes. Is that acceptable to folks?

MR. GUNNING: You think that could be done in May at the same time? That's the question. Right?

MS. PETERS: That's up to staff.

MR. SPEARS: In May? Or March? March 11.

ACTING CHAIRPERSON CAREY: And 25th potentially.

MR. GUNNING: And the May 25th meeting.

MS. PETERS: I'm just wondering how staff is going to put together a business plan to be presented and adopted in May if we haven't given them input prior to that on what we think the value add is.

ACTING CHAIRPERSON CAREY: Yes. And what I'm suggesting is that we would use -- if we use the two days in March, that we would use them for the other information we're talking about, reports and such, and for a continuation of the discussion about what our -- what the lending models are, et cetera.

MR. SPEARS: But in the --

ACTING CHAIRPERSON CAREY: On the way to the business plan.

MR. SPEARS: And the only concern is we'd like -- we'd like to get that feedback as we're developing products so that we can take advantage of the new issue bond program and start taking reservations at some point.

MR. GUNNING: Are you asking for two meetings in March?

ACTING CHAIRPERSON CAREY: Potentially.

MR. HUDSON: That's where we got you.

ACTING CHAIRPERSON CAREY: Yes. What I'm suggesting is that we would keep open for ourselves the possibility of meeting both the 11th and the 25th. Otherwise we come for the business plan adoption in May without having had the opportunity for the kind of, I think, more robust discussion that folks want on top of the other -- the other business we have.

So we'll -- we'll -- with that in mind, we'll ask the staff to work in that direction.

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Item 14. Public testimony

ACTING CHAIRPERSON CAREY: This is an opportunity for the public to address the Board on any matters that were not on the agenda. Is there anyone who would like to address the Board at this point?

Seeing none, we are adjourned.

(The meeting concluded at 1:16 p.m.)

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 4th day of February, 2010.

____

Yvonne K. Fenner

Certified Shorthand Reporter

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