STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Hyatt Regency Sacramento
1209 L Street
Sacramento, California

Tuesday, July 13, 2010
10:00 a.m.

Minutes approved by the Board of Directors at its meeting held:
Sept. 15, 2010

Attest:

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

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
8414 Yermo Way, Sacramento, California 95828
Telephone 916.682.9482 Fax 916.688.0723
FeldhausDepo@aol.com

A P P E A R A N C E S

Board of Directors Present

PETER N. CAREY
(Acting Board Chair)
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 Director, Region 2
Corporation for Supportive Housing

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

FRED KLASS
for ANA J. MATOSANTOS
Director
Department of Finance
State of California

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

A P P E A R A N C E S

Board of Directors Present
continued

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

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

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

BROOKS TAYLOR
For CATHERINE COX, Acting Director
Office of Planning & Research
State of California

--oOo--

Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

GARY M. BRAUNSTEIN
Special Advisor to Executive Director
and
Acting Director of Homeownership

ROBERT L. DEANER II
Director of Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing

A P P E A R A N C E S

Participating CalHFA Staff:
continued

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

LINN WARREN
Portfolio Manager

KATHY WEREMIUK
Housing Finance Officer
Multifamily Programs

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Public Testimony

DEBORA BEARD
ACCE - One LA IAF

PAM CANADA
NeighborWorks Sacramento

STEPHANIE HAFFNER
One LA/IAF

RENEE LEE
SEIU - One LA/IAF

YVONNE MARIAJIMENEZ
One LA - IAF

MARK LINDER
COPA - IAF

A P P E A R A N C E S

Public Testimony
Continued

MICHAEL PROFANT

MARIA ROCHA
COPA - IAF

YVETTE ROLAND
One LA/IAF

JOSE VEGA
Cisco

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BE IT REMEMBERED that on Tuesday, July 13, 2010, commencing at the hour of 10:10 a.m., at the Hyatt Regency Sacramento, 1209 L Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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CHAIR CAREY: I want to welcome everybody to the July 13th meeting of the California Housing Finance Agency Board of Directors.

--oOo--

Item 1. Roll Call

CHAIR CAREY: Our first item of business will be roll call.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner?

MS. PETERS: Present.

MS. OJIMA: 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?

(No response)

MS. OJIMA: Mr. Smith?

MR. SMITH: Here.

MS. OJIMA: Mr. Taylor for Ms. Cox?

MR. TAYLOR: Here.

MS. OJIMA: Mr. Klass for Mr. Matosantos?

MR. KLASS: Here.

MS. OJIMA: Mr. Spears?

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

Thank you.

CHAIR CAREY: Thank you, JoJo.

--oOo--

Item 2. Approval of the minutes of the May 12, 2010, Board of Directors Meeting

CHAIR CAREY: The next item of business is approval of the minutes of the May 12th Board meeting.

MS. JACOBS: Move approval.

MS. PETERS: Second.

CHAIR CAREY: Roll call.

MS. OJIMA: Ms. Peters?

MS. PETERS: 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. Smith?

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: The minutes have been approved.

CHAIR CAREY: Thank you.

--oOo--

Item 3. Chairman/Executive Director comments

CHAIR CAREY: With that, we'll move on. I'd just like to make a couple of introductory comments.

I want to welcome everybody here. It's nice to see a fair amount of public here joining us today.

We do have an agenda ahead of us with a variety of issues on it. I want to point out that none of these items on the agenda are formal action items. They are updates and reports for the Board on a variety of issues facing the Agency.

We will be going into a closed session later in the meeting to deal with litigation, and then return to public session following that. During the closed session, the room will be closed.

In order to accommodate people who have filled out speaker slips and indicated a desire to address the Board today, we will take public comment at a couple of points.

I know that there are several folks here who would like to speak specifically on the issues related to the Hardest Hit Fund proposal. And I'm aware of one or two other unrelated speakers. And I will try to work them -- I'll work the speakers related to the Hardest Hit Fund in following the staff report at Item 4.a on the agenda. And at that point, we will try to -- we will set some limits on time so we can keep the meeting moving along.

With that, I'll turn it over to our executive director, Steve Spears.

MR. SPEARS: Thank you, Mr. Chairman.

Welcome, Board Members. And to those who have joined us in the audience, I extend my welcome. And I'm glad to see a goodly number of people here. I'm sure we'll have a good discussion today.

This Board meeting will be, again, limited to review and update of the Board members of the major activities that the staff is undertaking right now.

We are returning to lending, both on the single-family side and the multifamily side, thanks to the New Issue Bond purchase program provided by the U.S. Treasury. You'll receive an update on that.

The Keep Your Home program funded by the Treasury's Hardest Hit Funds was approved by Treasury in late June. And we're very, very busily working towards implementation of that. And we'll have a good discussion on that.

The MHSA, you have not received a briefing on that in some time. That's really moving along.

We have over 1,350 units have already been created with that program. And it's been a real success.

Finally, we have been assisting the State Treasurer's office in the distribution of ARRA funds through the tax credit, the exchange program, and gap financing.

The Multifamily staff has been helping the Tax Credit Allocation Committee staff with that in a very big way. So we have received requests from Mr. Bill Pavao, who is the executive director of the State Treasurer's Tax Credit Allocation Committee to address the Board and the staff.

And I'd like to invite Bill to the microphone at this time.

MR. PAVAO: Well, thank you for the opportunity. And I don't want to take a lot of time out of your busy agenda. But I did want to take the opportunity to come over and formally thank the Board and the staff who have been helping the Tax Credit Allocation Committee administer those ARRA funds, the American Recovery and Reinvestment Act, dollars that we received from the federal government last year, to assist multifamily rental housing developments that were experiencing equity shortfalls.

You're probably all pretty familiar with that program as we've been administering it over at the Tax Credit Allocation Committee.

The CalHFA staff has been providing a tremendous service to TCAC and to the affordable-housing development community at large. And I want to commend them and thank you for that effort.

Again, just by way of reminder, we received $325 million in the form of a grant from the federal Department of Housing and Urban Development to operate a

Tax Credit Assistance Program.

In addition to that $325 million, under federal law, we were permitted to exchange in some of our 9 percent credits for cash and deliver that cash back to multifamily housing developments that were experiencing shortfalls, where in many cases, couldn't find an equity partner at all to come in and purchase those tax credits.

And as you're probably aware, we're not in the business of being lenders or grantors of federal dollars, or any other dollars for that matter. So we sought and received the help of your agency, and it's been invaluable.

And to date -- this was as of last Friday, and I know these numbers have increased a bit since -- just, again, by way of reminder, we made 142 awards. That is, 142 rental housing projects that would not have gone forward but for this federal assistance. So, again, we're making those awards in the form of loans, in some cases; grants, in others.

Of those 142, we've now closed 80 of those, which we've done that in just the last few months. The volume has been tremendous. These are complex deals. We couldn't have done it without the help of CalHFA staff.

We've also got, as of last Friday, ten additional projects in escrow and pending imminent loan closing. So, again, we're approaching 90 in this 142-project portfolio.

We've received 123 transaction summaries at this point from CalHFA staff. So again, they are, in essence, doing the underwriting and giving us transaction summaries as to the deal structures for these projects. So, again, out of the 142, 123 have already come over. So we're definitely seeing sort of the light at the end of the tunnel on the closing. We're now disbursing these federal funds, and these projects are coming up out of the ground.

We also have been receiving assistance from the Asset Management team. Again, we have an asset management responsibility at the federal level associated with these funds, so we're seeking the help of your agency, once again, to get our arms around that function.

And so in closing, I want to, one, commend the Multifamily Program's team that's been working on this. They've been fantastic, very diligent. I want to call out in particular -- of course, I want to thank Steve Spears, the executive director, for all of the help and resources he's been responsible for providing. I want to also thank the director of the Multifamily programs, Bob Deaner, for all of his help and insights; Laura Whittall-Scherfee, and in particular, Marisa Fogal and

Bobbie Angulo. They actually helped us in our workshops when we went out and quickly put together a training program to advise folks: "Okay, here is how we're going to roll out and operate this new program."

They helped us with that, and we continue to be very instrumental.

On the Asset Management side, I want to thank Margaret Alvarez and her team, including Chris Penny and Tom Armstrong here in Sacramento. But also we've had assistance in telephone conferences from folks in the Culver City office, including Ron Carter, Richard Dewey, and Abe Tsadik.

So I want to thank all of those folks. And I also just wanted to bring to the attention of the Board all the great work they're doing.

CHAIR CAREY: Great.

MR. PAVAO: And thank you, again, for helping in this tremendous effort that's making a real difference.

So thanks again for the time and opportunity to come in and talk to you.

MR. SPEARS: Thanks very much, Bill.

CHAIR CAREY: Thank you, Bill.

MR. SPEARS: I know there are a number of Multifamily and Asset Management staff.

And if you're working on these programs, would you please stand and be recognized at this time, staff?

(*Applause*)

CHAIR CAREY: Thank you.

MR. SPEARS: Thanks very much, Bill.

That concludes my remarks, Mr. Chairman.

CHAIR CAREY: Thank you, Bill.

I'd like to add my own thoughts.

That is the example of how California's housing agencies ought to work together. And I think it's great to see the two, and knowing that all three state housing agencies work so well together in meeting the state's needs. It's great.

Thank you, Bill.

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Item 4.a Report on the Implementation of U.S Treasury Department programs: Hardest Hit Fund

CHAIR CAREY: With that, we were moving on to Item 4 on the agenda. And Item 4.a is a report from the staff on the implementation of the Hardest Hit Fund program.

Steve?

MR. SPEARS: Thank you, Mr. Chairman.

Again, I'd like for Di Richardson, Linn Warren, I think we have one of our counselor partners who is here, to talk about Treasury's action to approval this, a little bit about the process, and the programs themselves.

I know you guys have been briefed at the March meeting, at the May meeting, as part of the business plan briefing. So we thought we would give you the final word about the program that's been approved by Treasury.

Di Richardson.

MS. RICHARDSON: Mr. Chairman, Members, thank you very much. It's a pleasure to be here and a pleasure to be working on something so non-controversial.

I really can't remember whether or not our proposal had been approved by Treasury when we last met and I last gave you an update. But we do have approval, which is very exciting, and allows us to start moving forward much more aggressively.

Since March, when the announcement came out, we've been talking to our partners, people that we knew we were going to need to partner with to be successful, the counseling agencies, the servicers, the community groups, to find out exactly what was needed, what kinds of programs they thought would be, you know, of the greatest benefit here in California, given the limited resources that were allocated to us.

So our four programs, which I think I talked about pretty extensively at our last meeting, have been approved with not a lot of changes. There are some changes.

We do have a Web site. It is "KeepYourHomeCalifornia" -- or is it "CA"?

MR. SPEARS: Yes. KeepYourHomeCalifornia.com.

MS. RICHARDSON: Sorry. I just know how to get there. It's bookmarked on my computer.

"KeepYourHomeCalifornia.ca.gov" or ".com," I think it works both ways. And there's a lot of information there already, the proposals on the Web site. And there are summaries -- there's a summary tab. And if you click on those summaries, you'll get the term sheets that are currently -- that have been developed to date. And those, of course, are still works in progress as we work out the details.

We have been working very diligently with Treasury to set up the bank accounts so that we can get the funding under control.

The agreements that we signed with Treasury call for some very significant compliance reporting and monitoring issues. So we're working to get those systems and that infrastructure in place.

We're finalizing, I believe, our contract with a central processing center because one of the things that I had talked to you about was, we didn't just want to do the programs; we wanted to improve the process on how the whole process worked, so that hopefully there would be less borrower frustration, less back and forth, less "resubmit your documents, let's see it again, do them again." And we think we're making some really good progress in that area.

And the RFP for the local innovation fund has gone out. And we're excited about that, to see the types of initiatives that people are going to propose. Those, of course, will also require Treasury approval. And we've got a commitment from Treasury to continue to work on those.

California is the only state that proposed a local fund like that. So we're pretty excited. We think it will give us a chance to sort of spread out a little bit and try some more creative things.

I'm happy to answer any questions you have.

I think you know Linn Warren. He's been locked in a room with me, poor guy. But I think we're getting very close and looking forward to getting this out on the road.

Pam Canada is from the Sacramento NeighborWorks organization. And she is one of the people that we've been talking to quite frequently about the program.

MS. CANADA: Good morning. I'm pleased to have the opportunity to provide comment to you today about the Keep Your Home program developed by CalHFA.

My name is Pam Canada. I'm the CEO of NeighborWorks homeownership center, Sacramento region, with offices here in Sacramento and also in Stockton. We're a HUD-certified housing counseling agency, a certified CDFI. And we provide comprehensive homeownership services to an eight-county area of Northern California.

Over the past two years, primarily, NeighborWorks Sacramento, along with our peer counseling agencies, have been heavily focused on assisting and counseling homeownership in various stages of mortgage distress. We've completed visits and counseling sessions and conducted public workshops that have included thousands of existing homeownership in California.

Many of our counsel clients are desperate to preserve their homeownership but have been impacted by a loss of employment or a drop in income due to reduced employment. Loan modifications are often difficult to achieve due to the significant drop in home values that have made workouts complicated.

CalHFA, of course, recently announced four new programs, collectively known as the "Keep Your Home Program," made possible through the Hardest Hit Funding. The objectives, as I understand them, are to preserve homeownership and stabilize communities.

I commend CalHFA for the extensive community outreach that they completed while they were creating this innovative group of programs. They conducted a variety of forums, made multiple phone calls, and met with individuals and groups, set up call-in opportunities for agencies and nonprofits and other stakeholders, to participate and to provide important feedback that helped shape the Keep Your Home Program.

Under an aggressive timeline, you completed and utilized a good amount of outreach and collected practical firsthand feedback from groups and agencies that helped to inform your program development.

Losing your home through foreclosure action is devastating, and there are thousands of homeowners in California that continue to face this crisis every day. There is no miracle solution that will address every situation equitably and swiftly enough to please every stakeholder.

CalHFA has provided a well-balanced set of programs that strives to address the issue for many homeowners, and includes in most cases an equal investment from the lender, servicer, or homeowner in reaching a solution. This was an important element.

Thank you for the opportunity to speak on this.

CHAIR CAREY: Thank you.

Questions from the Board?

(No response)

CHAIR CAREY: Di, can we talk a little bit about time-lines, when this is all going to roll out?

MS. RICHARDSON: Sure. While we're hoping -- like I said, we're in the process of trying to finalize our contract with our central processing center. And there will be a significant amount of work which we're going to require them to do in a very short period of time to make sure that they have the systems in place that are compatible to work with the counselors and with the servicers, and to be able to generate the reports and keep track of everything that we're going to need to keep track of, to make sure that we're doing this right and we're doing it successfully, and comply with all the audit requirements.

And today, our goal is to have a pilot program in place the first of October, and hopefully go live with the full thing on November 1st. If we can do it sooner, we'll do it sooner. We're pushing as hard as we can on everybody without making them want to jump off a cliff.

CHAIR CAREY: Ms. Peters?

MS. PETERS: On the subject of time-lines, can you summarize for us where we are in the process of designing the program and what flexibility, if any, is left to CalHFA to alter any terms of that?

MS. RICHARDSON: Sure. Well, the four programs that you see before you have been approved by Treasury. We've had -- I think I've been on the phone with them daily, and Linn probably has had more conversations. And so we have built in quite a bit of flexibility.

We're not -- if we propose something and it doesn't work, we're not stuck with it forever. They've given us the flexibility to make changes as needed, as we find things that need tweaking. That's also one of the reasons for the pilot program, so that we can do a readiness assessment.

There's also the ability to -- if one program is just going gangbusters and another is languishing, we have the flexibility, with Treasury's approval, to move dollars. The allocation that's included in the original proposal, quite frankly, was simply to get the entire allocation approved. And then we have flexibility to move dollars around between programs, not just the four that we've proposed, but anything that's approved in the local innovation -- from the local innovation fund.

And we also -- you know, there are ten other -- or nine other states that have programs. And so those programs, once they're approved, if there's something there that's working fabulously that we think would transport well to California, we can lift it off the menu and bring it in and give it a go.

MS. PETERS: And for the benefit of the public that's here, I know we have a lot of folks who have a lot of input on this. What would be the process for them to try and get their ideas incorporated into the program? Would that be the RFP process?

MS. RICHARDSON: Right now, it would be the RFP process. The RFP process is available. It's on the Web site. It's been mailed to everybody that I had an e-mail address for that attended any of the forums or participated in any of the phone calls. And so we would ask people to -- you know, we obviously can't provide funds for a program that hasn't been approved by Treasury.

So the first step is getting Treasury to approve a program, getting some experience with it, getting some success, and then figuring out, you know, what the proper funding level is.

CHAIR CAREY: So we'll get the proposals and then we'll get Treasury approval?

MS. RICHARDSON: Correct. We're still the managers of the funds. We have to vet them first. But Treasury has final approval over all program elements.

CHAIR CAREY: Okay. Ms. Carroll?

MS. CARROLL: Thank you.

A couple of questions.

You said that you have sort of first look at the proposals. Does that mean that you'll screen the proposals before they go in for approval, and maybe some might go in and some might not, or do they all --

MS. RICHARDSON: Yes. If there's something that goes in that we absolutely know isn't going to pass the test -- and I think we would not do ourselves any big favors if we sent 30 proposals to Treasury and asked them to approve them by the end of September. So they're -- and, you know, we do have a limited amount of dollars. And today, I don't have any idea how many proposals will be submitted. We've asked for letters of intent to come in this week, so we have a better idea of what that universe is going to look like and whether or not we need to sort of steal some more staff from other areas to help us vet those -- hi, Steve -- to help us vet those because, really, there's only so much we can do ourselves.

MS. CARROLL: Okay, thank you.

The other question I have, you said that other -- obviously, you'll be working with other states and looking at what they're doing.

MS. RICHARDSON: Yes.

MS. CARROLL: So our program is the first to be approved, is that --

MS. RICHARDSON: There were five in the first round that were approved.

MS. CARROLL: That were approved. Okay.

And how do our programs compare to the other states so far?

MS. RICHARDSON: California, Nevada, and Arizona have principal-reduction programs. Michigan and Florida have focused on unemployment assistance.

MS. CARROLL: Okay.

MS. RICHARDSON: The program that Michigan is doing, is a program that they've done for years, and they're just using these funds to continue that, I believe.

MR. WARREN: Correct.

MS. CARROLL: And on the principal-reduction programs, would we be working with the other states?

I mean, I'm assuming some of the same --

MS. RICHARDSON: Yes.

MS. CARROLL: -- things are involved.

MS. RICHARDSON: Yes, we are having conversations with them. Because, quite frankly, the servicers can only deal with so many programs. And they've got HAMP that they're trying to implement, which changes periodically, as you know. And every time that changes, they've got to go in and change their platform. So to the extent that we can provide some continuity between programs, I think it would be to our benefit and to everyone's. So we are working on that.

MS. CARROLL: And I would assume that would also apply to any of the innovative programs that do get approved and should be successful.

MS. RICHARDSON: Correct.

MS. CARROLL: Thank you.

CHAIR CAREY: Ms. Jacobs?

MS. JACOBS: Thank you.

Could you just confirm for me one more time the dollar amount for the innovation program?

MS. RICHARDSON: Well, right now, in the proposal, we've allocated -- and it's not really an allocation. What we did was, we said it's about $32 million for the original application. But if you look at the way the dollars are allocated in the proposal for the four programs that were approved, you'll notice, those take up the entire $7 million. And the reason we did that is because --

MS. JACOBS: $700 million.

MS. RICHARDSON: Thank you -- $700 million -- was because Treasury instructed us to do that so that the entire amount was approved for us. In case, you know, something happened and none of the local programs got approved, we didn't want to leave $32 million sitting on the table.

MS. JACOBS: Great. Thank you.

MS. RICHARDSON: But we'll move those funds around.

CHAIR CAREY: Mr. Hudson, did you have a question?

MR. HUDSON: So on the principal-reduction program, I'm led to believe it doesn't apply to refinances?

MS. RICHARDSON: It applies to people that didn't -- as long as they didn't take cash out. If they did a refi for a better rate or term, then they're eligible; but not for a cash refi. And the reason we did that was because $700 million really isn't a lot of money. And, you know, we had to draw some lines somewhere. And, quite frankly, we didn't know how to determine who took cash out for a good reason and who didn't. We just didn't really feel like we were the best judges of that.

MR. HUDSON: And when you talk about flexibility with the program, could we include in the program incentives for lenders to do more than a 50-50?

MS. RICHARDSON: Well, I wouldn't say we're actually -- we don't look at this as an incentive for the lenders. If lenders want incentives, there are other incentives in other programs out there for them. What we're trying to do is, you know, help the borrowers.

Certainly, there are programs out there that incent lenders to go down to 105 percent LTV. And we'll take -- they can use these funds to get down to 120, and certainly lenders can put in more than a one-to-one match and get borrowers down further. And, in fact, that's what we're hoping will happen.

MR. HUDSON: So "incent" maybe is the wrong word.

Can you penalize lenders for not doing more?

MS. RICHARDSON: We can't penalize, no. We don't have any authority to penalize lenders.

But we will probably -- what we're considering and what we're thinking about is if there's a way for us to give some kind of priority for lenders that do the higher match.

MR. HUDSON: And can you move money around from categories, from unemployment assistance to --

MS. RICHARDSON: Yes.

MR. HUDSON: You can?

MS. RICHARDSON: Yes.

MR. HUDSON: Without Treasury approval?

MS. RICHARDSON: No, it will require Treasury approval, but I don't anticipate it being a problem.

MR. HUDSON: Okay, thank you.

CHAIR CAREY: Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: Yes, on the line of principal reduction, can we look at trying to get lenders to cooperate to a point where we won't put in anymore? Where they'll take, say, the difference between 120 and 105, and put that as deferred at the end of the loan?

MS. RICHARDSON: Sure, they can do that.

MS. MACRI-ORTIZ: At the end of the loan --

MS. RICHARDSON: There's nothing that would prohibit them from doing that.

And, again, a point that I don't know if I've made is that this program is not the actual loan modification. We're trying to use these funds to get people to a point where they can get to a sustainable modification. And that's why also we went to 120 percent, because we know that there are loan modification programs out there for borrowers that are at 120 percent LTV.

So at that point, absolutely, lenders can go lower. If they want to do forbearance for the rest of it, absolutely there's nothing to prohibit that.

CHAIR CAREY: Mr. Smith?

MR. SMITH: I'm just curious if you've had any preliminary discussions with any lenders and what their response is to this program.

MS. RICHARDSON: Yes, we've been talking to all of the lenders. And I think that they've -- I think that we've had some pretty positive conversations. I would characterize them as being very positive.

I think one of the biggest concerns that they have, as I mentioned is, how will they do ten different programs. I mean, we've got four.

And do you remember the number from each state?

I mean, I think there's something like 19 programs that have been proposed.

MR. WARREN: Yes, by the time, BofA added up, it was almost 31 programs total if you taken into account all the potential variations of the programs from the ten states. So it's quite a few.

CHAIR CAREY: Ms. Peters, yes?

MS. PETERS: One more quick question to help guide the public in their submissions in the response to the RFP.

I know that we were lucky enough to have all of our programs approved pretty much as we submitted them. I know some other states had some difficulty with some of the proposals, just not being acceptable to Treasury.

If you might give us some examples of the things that we know that Treasury has not approved and would be unlikely to approve in the future.

MS. RICHARDSON: Yes, I'll tell you, we had to fight very hard to get the counseling piece approved. We thought that was really critical, and we really went to bat for that. And I know that there was the least -- there was down-payment assistance that was proposed that was not approved, and there was legal aid that was not approved.

CHAIR CAREY: Other questions?

(No response)

CHAIR CAREY: Okay, thank you very much.

MS. RICHARDSON: Do you want us to stay?

CHAIR CAREY: Yes, Linn and Diane, if you would stay.

And then we have a number of people who have filled out speaker slips, some of whom I have twice, and I'm hoping will only speak once.

I think what I'd like to do, if we can keep this to 15 minutes, it would be very helpful, recognizing that there are, I think, about six people who have filled out slips.

But, Yvonne Mariajimenez, I believe you're sort of the lead on this. If you'd like to come on up and take a seat at the table. And maybe the next person up -- you have the list, I assume?

MS. MARIAJIMENEZ: Good morning.

If I could ask Mark Linder, Yvette Roland, and Stephanie Haffner to join me at the table.

Good morning, Mr. Chairman, distinguished Members of the Board, and the CalHFA staff. I am Yvonne Mariajimenez. This morning, I'm here representing the national network of the Industrial Areas Foundation. In Los Angeles, we're known as "One LA."

Today, we are here joined by a coalition of allies who are SEIU, ACCE, and Cisco, who are here represented in the hall. Together, our organizations represent millions of families across the state of California.

One LA-IAF appeared before you at your board meeting in March to address the Hardest Hit Fund money allocated to California to prevent foreclosures.

We recognize and commend the staff of CalHFA for their decision to allocate $500 million of the

$700 million toward principal reduction. We think that that is a great decision and a very good start to addressing foreclosure prevention in our state.

Yesterday, we met with the CalHFA staff. I'd like to recognize Diane Richardson, Linn Warren, and Jean Mills, who provided us a significant amount of their time to sit down with us to discuss our concerns with the CalHFA plan as currently written. We had a very fruitful and very beneficial conversation; and we are very confident that we will have an ongoing dialogue.

We provided to them why we feel -- what the concerns are with the plan as currently written. The major concern being that it provides far too much public funds to investors and banks in return for the reduction of mortgage debt to be reduced.

We appear before you this morning to urge you to set policies that will insure the effective and accountable expenditure of the Hardest Hit Funds, to ensure that homeowners are not left substantially underwater after significant public investment.

We urge the Board to consider the policies set by the Obama Administration. In the enabling legislation that established TARP, our Government has stated that taxpayer funds should not be used to pay more than what mortgage debt is worth. And it talks about using net present value as a measure for determining payment to investors in return for principal reduction.

We believe -- and we've discussed, the One LA plan with staff. We believe it meets the interests of investors by giving them a better return than moving forward on foreclosure, it keeps families in their homes, and it keeps our communities intact. And it will go a long way in establishing and stabilizing the housing market in California.

Bank of America has agreed to participate in a small demonstration project in a district in the city of Los Angeles to demonstrate its effectiveness, and that project will launch this month.

I'd now like to yield to the floor and to my colleagues who will provide you more information.

MR. LINDER: Thank you, Yvonne.

I'm Mark Linder. I'm with the COPA organization which is an IAF network organization in Monterey and Santa Cruz counties. And, as you know, that area is hit three to five times more than the state average in terms of foreclosures.

Following what Yvonne has said, we actually have a policy resolution that we would like the Board to consider when it's appropriate, a policy resolution to guide the programs that you're going to be working on.

And I'll just go through the resolution and then I'll turn it over to another speaker.

"So whereas the U.S. Department of Treasury established a program for states hardest hit by the foreclosure crisis to innovate solutions for distressed homeowners faced with a severe negative equity, second liens, and unemployment, known as the Hardest Hit Fund.

"And whereas the Hardest Hit Fund is funded by the Troubled Asset Relief Program, TARP, funds under the Emergency Economic Stabilization Act of 2008, or EESA.

"And whereas the U.S. Treasury allocated to the California Housing Finance Agency $699,600 under the Hardest Hit Fund program and directed CalHFA to draft a plan to using the funds.

"And whereas EESA provides, in pertinent part, for TARP funds to be used in a manner that:

"One: Protects the interests of taxpayers by maximizing overall returns and minimizing the impact on the national debt;

"Two: Considers the net present value to the taxpayer when purchasing troubled mortgage debt;

"Three: Prevents unjust enrichment to

financial institutions; and

"Four: Takes into account the need to help families keep their homes and stabilize communities.

"Whereas the CalHFA plan includes $420,634,500, or 60 percent of the funds for a principal-reduction program and a maximum of 5 percent of funds or $32 million, as indicated earlier, for the local innovation fund.

"And whereas the CalHFA, in its plans for the Hardest Hit Fund, reserves the right to adjust these allocations among the various programs based on various factors, as you've heard earlier.

"Whereas as of February 2010 there were at least 504,778 delinquent loans in California.

"And whereas subprime loans constitute approximately 63.6 percent of completed foreclosures on loans originated between 2005 and '08.

"Whereas from 2004 to 2008, 58.5 percent of subprime loans were refinance or home-improvement loans.

"Now, therefore, be it resolved" -- and I do have a copy of this which I'll get to you -- "be it resolved that,

"One, CalHFA" -- these are the policies that we're looking for -- "CalHFA shall ensure that funds for principal reduction are used in a manner consistent with the Emergency Economic Stabilization Act of 2008, and leveraged to:

"1, maximize the number of homeowners reached, homeowners helped;

"2, maximize the amount of principal reduction for each dollar of taxpayer money or public investment; and

"3, minimize the amount of mortgage debt held by homeowners in order to ensure that after public investment funds, foreclosure is prevented.

"Two, CalHFA shall revisit its exclusion of long-term homeowners from participation in its programs and shall consider permitting homeowners with subprime loans in addition to homeowners who purchase money mortgages and refinances to participate in its program; and

"Three, CalHFA shall take all necessary steps, including obtaining bank data to evaluate its principal-reduction program using, at a minimum, the criteria of:

"1, Number of homeowners reached,

"2, Amount of principal reduction for each dollar of public investment,

"3, Post-modification of loan-to-value ratio on the first mortgage, "4, Post-modification of loan-to-value ratio on all debt mortgage -- mortgage debt, and

"5, Loan performance,

"6, Geographic location, and

"7, Demographic information."

That is the resolution we urge you to consider.

I will -- who should I give the copies to? Who is the appropriate party?

CHAIR CAREY: You can give it to Diane Richardson.

MR. LINDER: And we can get copies around to each of you.

CHAIR CAREY: Great.

MR. LINDER: Thank you.

MS. MARIAJIMENEZ: I'd like to call Renee Lee forward, a homeowner, to tell her story.

Renee?

MS. LEE: Hi. My name is it Renee Lee. I live in South Sacramento. I've been in my home for 21 years.

This is no fault of mine. The Governor reduced our wages -- I'm a state worker also. I work for the Franchise Tax Board for 32 years -- reduced my wages 15 percent. It became -- I had to make hard choices because I also legally adopted my granddaughter.

Do we eat, have lights, or do I pay my

mortgage? So I had to make some hard choices.

I have been in New York City, New York, at a vigil at Bank of America. I was also out on Washington, D.C., on K Street -- shutting down K Street because I'm not going to stop.

I bought this home 21 years ago. I paid my mortgage on time. The banks are not working with me.

Bank of America finally contacted me after the vigil in New York, trying to modify my loan. The first package they sent to me, it was incomplete, so I made a phone call, got a complete package.

Then I received the last package on the 24^{th}. I stayed up until ten o'clock at night to make sure I finished this package and do what I needed to do to get it returned back to them the next day.

To this day, I haven't heard from Bank of America. They was going to sell my home on June 30^{th}, which I wasn't aware of. She claimed, she extended the loan until July 31^{st}. But at this point, I haven't heard from them.

So I'm asking you to help them to adopt this, to help me save my home. This is the only home me and my granddaughter has. If we lose our home, we'll be homeless and we'll be out on the street. And I shouldn't be like this. I was living the American dream. Now

I'm living in this nightmare, and I just want it to end. I just want to save my house, so I can raise my granddaughter to make sure she graduates from school, be whoever she's going to be, and give her a fair chance at life.

Thank you.

CHAIR CAREY: Thank you.

(*Applause*)

MS. MARIAJIMENEZ: Jose Vega.

MR. VEGA: Hello. My name is Jose Vega. I'm a realtor from Pittsburg, California. And I'm here today to tell you I have been dealing with my bank for over a year, approximately 16 months now. And I first was put on a trial modification by Chase back in May of last year, and made six trial payments.

Two weeks after that, I found the notice of trustee sale on my door because they had decided I didn't qualify. And they had done a foreclosure at the same time as they were doing my modification.

Now, I have been -- I was able to stop that sale, and I have been denied a modification twice after that.

I have the office of Senator Feinstein involved in this. And even with that, in the middle of my negotiation, they foreclosed on my house back in April.

Now, after that, they rescinded the foreclosure because of all the pressure that Senator Feinstein put on them, and then they gave me a modification June 15th with payments that are $500 higher than they had originally said, knowing very well that I wouldn't take it. But the curious thing was on the same day, they sent me a third letter of denial. This time, it has the net present value formula.

It seems to me that all this help has been designed with the banks' interest in mind, more over my own interest and all of those thousands of homeowners like myself. So I would like to ask you to please, please consider a principal reduction.

My house is $250,000 under while my loan is $40,000 more after the all the charges that they're putting on me.

So I have a dream. And I know that we're going to be better as a people after this crisis is over.

And I also have a dream that the change will start, you know, in California. And we need you to help us out.

Thank you very much.

CHAIR CAREY: Thank you.

(Applause)

MS. MARIAJIMENEZ: Maria Rocha.

MS. ROCHA: Hi, everyone. My name is Maria Rocha. And I am a resident of Monterey County. I'm also a member of the Catholic church, and I'm a leader of COPA.

About 19 months ago, I applied for a loan modification with Wells Fargo because of my husband and my brother lost their jobs due to the economic crisis. During this time, I had submitted my documents about 12 times. And every time I called Wells Fargo, they gave me different information. That is why it took them so long.

Finally about two months ago, they preapproved me for the Making Home Affordable. They reduced my payment to $200. Right now, I'm in the trial period. And I still have to wait for them to make the final decision regarding my mortgage.

This process has been very long and very stressful because on many occasions, my house was almost sold by the bank. I have to be calling them almost every month to ask them to postpone the sale of my house.

Seven years ago, when I bought this property, we paid $630,000. Right now, it's worth $320,000, which is almost 50 percent less of what I paid.

So I'm here today because I think that a principal-reduction program is what we need here in

California. And in order for that to happen, we need to invest in the people that are facing this crisis.

I know from what I've read from the draft, is that if your house has been put up for sale, you won't qualify for the loan principal reduction or if you have a second mortgage. So I wanted to ask you if you can please change some of the guidelines for this program.

Thank you.

CHAIR CAREY: Thank you.

(Applause)

MS. MARIAJIMENEZ: And Debora Beard.

MS. BEARD: Good morning. My husband Tommy and I are both members of ACCE. He is a member of the SEIU. I am a member of CSEA.

We asked for a modification on our loan because we had gotten into some temporary financial problems, and we thought that we would be able to get help from our lender, who is Chase.

We didn't get any help from them. Upon asking for a modification, we were waiting for an answer. The next thing we got is somebody telling us we had to move because our home had been sold.

At that point, we refused to get out. We started with ACCE and we started fighting to stay in our home to see what could be done.

We asked for the modification. We sent the papers in, we sent papers in, we sent papers in. A lot of the same papers that had been sent in already, we were mailing them, we were faxing them, even Fed-Exing them.

What happened with us is that we're now way, way under on our loan. We've been trying to make the payments. We asked Chase to help us out, you know, is there something that could be done so that we could remain in our home.

Chase has not responded to us in a way we think they should have. We feel like our modification was not done properly. The formula should have been done better because we ended up with a payment that was more than our original payment plus, we had a $157,000 balloon payment at the end of that payment period. We need someone to do something about principal write-downs because without doing those, homeowners cannot stay in their homes. There's no way they can get back on their feet.

The banks are getting assistance from the government. They have gotten assistance. Now, if they're in a position to give their employees and their CEOs billion-dollar bonuses, there should be something they can do for the average homemaker who's trying to just stay afloat and stay in their homes. We're not asking for a handout. We're asking for a hand-up.

We're willing to do our part. We have been doing our part. We need Chase and the other banks to do their parts, follow the guidelines that they send to us saying that we need to do such-and-such a step, and they will do such-and-such a step afterward. We need them to step up to us now because we've been stepping up to them.

Thank you.

CHAIR CAREY: Thank you.

MS. ROLAND: Good morning. My name is Yvette Roland, and I am a South Los Angeles leader with One LA. And I'd like to ask that CalHFA reconsider one key element of its plan as currently structured, and that is, that the CalHFA plan eliminates and, in effect, bars any homeowner who refinanced and pulled cash out for any purpose.

This has the effect of eliminating the participation of long-term homeowners, such as homeowners who we've heard today who have actually been a part of communities that were targeted by predatory lending.

We appreciate that CalHFA has made a diligent effort to allocate funding and has advanced the concept of principal reduction. However, by eliminating this substantial group of people, most of whom are -- or many of whom are from communities of color where they were targeted, not because the lenders wanted to encourage them to reduce their interest rates, but because they wanted to encourage them to pull out the equity that they had in their homes, and to do so with unfavorable subprime loans.

We've had conversations with hundreds of homeowners in South Los Angeles and in other communities of color; and what we've learned is that these individuals, contrary to the current -- to the publicity that surrounds the purposes for which the funding was used and was pulled out of these homes, contrary to that publicity, there are not large numbers of mansions that have sprung up in South Los Angeles; there are not individuals who went out and bought boats, who went out and bought luxury items.

What we've learned, based on our conversations with hundreds of members of our institutions is that many of them pulled out money to pay for tuition, many of them pulled out money to pay for living expenses that arose as a result of unemployment. Many of them pulled out money to pay for medical debt.

We know that based on the statistics recently compiled and circulated by the Center for Responsible Lending, that individuals in primarily communities of color face a 45 percent and 47 percent higher likelihood of facing foreclosure than in other communities. We also know based on the statistics compiled by the Center for Responsible Lending that these are communities that were targeted by subprime predatory lending practices.

And so we ask you to reconsider eliminating this substantial group of individuals from this plan because these individuals, too, should benefit from the lifeline that is thrown out by the federal government in connection with these TARP funds.

Thank you.

(Applause)

MS. HAFFNER: My name is Stephanie Haffner. I'm the supervising attorney for housing and consumer loans with Neighborhood Legal Services of Los Angeles. Neighborhood Legal Services of Los Angeles is a member of One LA that, as you know, has been involved in a pilot program in the city of Los Angeles to demonstrate loan modifications with principal reduction.

And my task here as sort of technical assistant on that pilot is just to highlight for you very quickly but specifically where we think the principal-reduction program can be improved, and that would be with attention to what is the mortgage balance after modification. So after the public invests up to $50,000 in a principal-reduction loan modification, what is the mortgage balance? Is it going to be low enough to actually prevent foreclosure, or is it just going to be a give-away for some foreclosure that would happen anyway?

And the second point would be, what is the amount of leverage that the public is getting for that investment of public funds?

In Los Angeles, what we are piloting is that the public will be investing the net present value of forgiven principal.

What is in the CalHFA principal-reduction plan, as written, is a target of a 50-50 match. So if CalHFA invested $50,000, the lender could forgive $50,000, and there would be a principal reduction of $100,000 for a participating homeowner.

However, this is a homeowner who is in distress and who is already severely underwater. And so when you take into account actually the actual present value of that principal forgiveness, it's not 50 percent, it's not 50 cents on the dollar. And the bank's own calculations to us have been that it's more in the range of 6 to 15 cents on the dollar. So that we think that with a smaller investment, you can put more homeowners in a better position to actually prevent enclosure long-term.

I have for you a one-page case study that compares what the One LA pilot approach with the current CalHFA plan. And the figure there -- this is an actual case example using figures from Chase Bank -- in the Los Angeles model, there would be a $186,000 of principal forgiveness in exchange for an investment of $18,000 by the public.

And at the end of the day, homeowner's mortgage debt is going to be no more than 125 percent of the home value. So they have a reason to keep paying because we think values are going to go up.

Are they going to go up by 25 percent in a few years? Possibly.

Are they going to go up by 100 percent in the next few years? We think highly unlikely.

And so that is for your consideration. And I will -- who should I hand this case study to?

CHAIR CAREY: Right behind you there.

Thank you very much.

(Applause)

MS. HAFFNER: Thank you for your time and consideration.

CHAIR CAREY: Thank you very much.

I especially appreciate the homeowners who brought themselves forward. I know these are difficult stories, mixture of stress and sadness and I'm sure anger. And I appreciate their willingness to tell the stories that are occurring way too frequently around the state.

Steve, do you have or does staff have some -- anything to add? Or, Board Members, questions to ask?

Go ahead.

MR. SPEARS: I just want to echo your remarks.

I know that there are literally hundreds of thousands -- I think one of the statistics was quoted of homeowners in California that are in trouble in one form or another. Some are not very delinquent and some are being foreclosed upon. And it is an enormous, enormous problem. The staff has struggled with this. The Board has struggled with this.

What we've tried to do is leverage these funds. What we've tried to do -- and here again, it's a little disconcerting to say that $700 million is not a lot of money. But when you spread it in a state our size and look at the problem that's out there, I'm not sure the total amount of principal balance of the 529,000 that are delinquent, but it is a very, very large number. And so we had to deal with a very, very limited resource.

What we've tried to do is put in the matching element. Not only that, but what we're trying to do is not make this the end game. The end game is to take as many folks as we can and get them into programs that they're being denied at this point. And you've heard some of these stories, that they have been put into trial programs and then told no. And that's what we're trying to do. We're trying to leverage it, not only the money that we have, the $700 million, but also the federal funds that are out there in HAMP, in HAFA, in Making Home Affordable, in a lot of the other programs. And that is our goal.

One final goal is that if we can make this work really, really well, help as many people as we can, we'll be the first ones back at Treasury saying, "This really worked in California. We need more help. We need more allocation of dollars."

CHAIR CAREY: Could I just ask a quick question?

On the Chase example, is that a done deal? Is that approved by Chase or is this just an example?

MS. HAFFNER: The Chase example is an example that was worked up by their sort of financial analyst team in assessing whether to participate in the local pilot. And Chase has agreed to participate in the local pilot based on examples such as this one.

CHAIR CAREY: Okay, thank you.

Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: Yes, I have a question, because you kind of hit the nail on the head in terms of, are we looking at this program in a vacuum or are we carrying it over to the modification? Because I know we're saying this is kind of like a jump-start to the modification.

It seems that we need to build into our program some sort of structure to keep the banks honest. Because I think what we're hearing is, okay, so we'll take that money and then a few months later then it's -- you know, you can't meet the 105 percent, or whatever their standard is, and so you go out.

And I think maybe that's where maybe you can use some sort of a commitment that isn't necessarily in dollars, that are, you know, cash dollars.

Okay, so say they commit, you know, to match at 50 percent, but then we've got to have a catch on them, we kind of have to have a hook that, okay, now, we're going to send the family to the modification level.

MS. RICHARDSON: Absolutely.

MS. MACRI-ORTIZ: We've got to have a guarantee that they're going to come out of the modification with, you know, a loan that they can afford.

And so at that point, we need maybe -- we need the commitment from the bank that if the math doesn't work at that point, then the bank's got to be willing to at least put that on the back end.

MS. RICHARDSON: Well, again, that's where we think our central processing center is going to be very key in making sure that these dollars are being used in conjunction with sustainable long-term modifications.

So it's not going to be: Throw this money at something, and then the borrower doesn't qualify for modification, and this money is gone, anyway. There will be a longer-term strategy.

MS. MACRI-ORTIZ: Okay, because that's kind of like the biggest concern is, I don't believe in just giving money at it, at the end of the day.

The other thing is -- and this is maybe for the audience as much as where I'm coming from -- with respect to your housing, if the consumer, the homeowner is looking at it as their decision whether they're going to stay or not is based on what the equity is in the house as opposed to the way they spoke about, "I just want a place where I can raise my grandkids," that's a whole different ball game.

And so I don't know that it really -- you know, the equity or the decision about what is it going to be worth, or is it worth it to stay in the home because of the property values have dropped $300,000 or whatever.

If you can get the homeowner to a point where they can afford the mortgage -- so they're at 30 percent or 35 percent of their pay is going to their mortgage, it doesn't really matter how much.

MS. RICHARDSON: Right.

MS. MACRI-ORTIZ: Because I think in terms of what our values are -- and that's where I'm coming from. It's not to get them so they can sell the home in five years; it's so they can raise their family --

MS. RICHARDSON: Right. That's why we sort of went with the 120 percent LTV versus taking somebody down to 100 and creating some kind of equity. We think this is a program for people that want to stay in their homes and need help staying there.

MS. MACRI-ORTIZ: So the focus has got to be on what's the payment going to be for the family as opposed to the --

MS. RICHARDSON: Absolutely.

MS. MACRI-ORTIZ: -- the loan-to-value, right?

MS. RICHARDSON: Yes.

CHAIR CAREY: Mr. Hudson?

MR. HUDSON: Yes. So I assume the Agency wants to leverage the dollars as much as everybody else does. We want to see as many people served as we can.

And this question of leverage, to me, there's a major party not here today, and that's the banks. Clearly, they are underrepresented at this meeting today and, clearly, have no representatives here to give us their thoughts on this.

But the issue -- and I want staff to respond to this -- I'm assuming that the 50-50 match -- if a bank wanted to put in, you know, 75 -- you know, $3 for every $1, we would take it. And, thus, I assume that we came with 50-50 on the theory that that's the best program to get the most participation from the banks.

So, one, I want to know if that's true. And, two, I want to know, kind of is there some analysis that went into how we came at this number of the match?

MR. WARREN: Mr. Hudson, we had a number of discussions with the servicers. And, yes, we believe that the 50-50 match was the most acceptable to bring in as many services as we possibly can to lenders.

Nobody has really attempted a large-scale principal-reduction program up 'til now. There's been lots of discussion, but nobody's really done one yet, notwithstanding the program that's come out from Treasury earlier this year. So these were based on discussions.

We did an analysis as to if we did a 70-30 or a 30-70, that kind of mix. And as Di said earlier, the objective is to leverage the dollars to reach as many borrowers as we possibly can. And predominantly a large amount of dollars goes to principal reduction.

So this is also based again -- not just for the major servicer but also the smaller servicers and smaller lenders throughout the country. So it was our best estimate, it was our best guess.

And as we've said earlier, if we find that there is additional interest over and above the supply, then we can put priorities with higher participations. But we'll have to test these to find out.

CHAIR CAREY: Thank you.

Ms. Carroll?

MS. CARROLL: Thank you.

I'd like to thank the folks from One LA for coming to talk to us today.

And I did have a question about the demonstration project. I think it's about ready to start; is that correct?

MS. MARIAJIMENEZ: That's correct.

MS. CARROLL: Okay, and how long do you think it will take to see results?

MS. MARIAJIMENEZ: Within the month and a half to two months, I think the 50 loans will be made and the outcomes will be there.

MS. CARROLL: So this will be 15 -- the initial program is 15 --

MS. MARIAJIMENEZ: 50, five-zero.

MS. CARROLL: 50.

MS. MARIAJIMENEZ: We have a million dollars. It's a tiny demonstration project, in one district in the City.

MS. CARROLL: Okay.

MS. MARIAJIMENEZ: And it's a million dollars allocated to that.

MS. CARROLL: Okay, thank you.

And in terms of working with the lenders -- and I understand it's a massive project and a lot of banks to work with. But will you be able to take results from this project and at least, you know, work to be able to leverage our dollars as far as possible? I mean, we do still have flexibility in our current program.

Just curious as to how we're incentivizing lenders to give us a better match or a better leverage.

MS. RICHARDSON: Quite honestly, we want them at the table. And, you know, our goal is to push them as far as possible. But if we offer them 6¢ on the dollar and no one participates, no borrowers get helped. So we're trying to find a way to sort of find a middle ground.

And, you know, if we put in $50,000 and a lender puts in $50,000, that's a $100,000 benefit to the borrower. We do not think that's an insignificant amount.

And, you know, it's a three-year -- forgiven over a three-year period to incentivize -- again, to incentivize the borrower to stay current, to not just get the money and flip the house. So, you know, those are all things that we're taking into account.

CHAIR CAREY: Could I ask, the loans, the Bank of America loans that are part of the demonstration, are they strictly -- is it strictly a geographic selection or is there anything else that's --

MS. MARIAJIMENEZ: This demonstration project is a selected geographic district because they are AB 1290 funds that were allocated by a city council member for his district.

CHAIR CAREY: Okay, so it's just --

MS. MARIAJIMENEZ: It's contained within that district only.

CHAIR CAREY: But they're just BofA loans?

Is there anything on the BofA side that's focused -- that they're focusing on specifically?

MS. MARIAJIMENEZ: They're BofA loans. They have -- they've told us approximately 2,200 loans just in that one district.

CHAIR CAREY: Okay. And could you say -- with the issue of seconds, cash-out seconds, isn't there a fair amount of liability to the borrower on the deficiency judgment issue?

MS. MARIAJIMENEZ: I think Stephanie will address that.

MS. HAFFNER: I guess what's the follow-up on that, so I mean, the question is what is the liability of borrowers who have a cash-out second lien for a deficiency judgment? I mean, it would be subject to California law. So it could be subject to being addressed in bankruptcy if that were appropriate for that homeowner. And if not addressed in bankruptcy, then it would be otherwise subject to California law.

CHAIR CAREY: Okay. We have a rogue microphone.

Ms. Peters?

MS. PETERS: I'd like to commend everyone who has spoken today for having the lines of communication open to discuss creative ways to leverage to the maximum extent possible. And I understand how frustrating it is to deal with banks for the public, and believe it or not, sometimes it's frustrating for us as well.

So I'd like to encourage the communication to continue. And to the extent that the folks who have a pilot program, have the ear of bankers who are willing to engage in discussions about high leveraging, that you try to facilitate a meeting between those individuals who are funding your pilot program and our staff so that we can talk to a willing audience about possibly expanding that and testing the waters to see if they are so inclined to expand it beyond the initial.

So thank you for that introduction.

MS. MARIAJIMENEZ: Absolutely.

CHAIR CAREY: Any other -- yes, Mr. Smith?

MR. SMITH: Yes, I'm just curious. I know your pilot program is with BofA.

Did you have discussions with other lenders --

MS. MARIAJIMENEZ: Yes.

MR. SMITH: -- and did they say that they might be interested, or what?

MS. MARIAJIMENEZ: Yes. We're dealing with four major lenders besides Bank of America. It's Chase who has advised us that they will participate, Wells Fargo, and OneWest, formerly IndyMac. And it is those institutions that hold the bulk of the loans in our communities.

MR. SMITH: And what is the percentage that you put in and the percentage that they would write off? Have you already, in your program, is it specified that you're going to put in a percentage of funds and then they're going to write off some percentage?

MS. HAFFNER: Yes, the City is going to contribute the net present value of the forgiven principal. And net present value is a concept that's written into the TARP legislation; and it's the notion that TARP funds shouldn't be used to overpay for assets.

Net present value is also -- there are formulas to calculate this that have been blessed by Treasury that the servicers use when they decide, "Do I foreclosure or do I modify?" So they already have a way of calculating if they take away that $180,000 to bring somebody closer to where they can sustain homeownership long-term, then what is net present value of that, taking into account is the property going to appreciate or depreciate, is this homeowner going to be able to continue making payments, and how far underwater are they?

The range is approximately 6 to 15 cents on the dollar, but it depends on how far underwater they are, the borrower's creditworthiness, and the economics of the local community.

MS. MARIAJIMENEZ: And to the loan range.

MS. HAFFNER: The loan range?

So what we're saying is an average of about $10,000 to $20,000 per homeowner contributed, and that the principal forgiveness is in the range of $100,000 to $200,000.

And it's in the investors' interest as well in that when somebody is after -- it's not impossible at all to have a $100,000 write-down on a loan, and for that homeowner to still be underwater by 150 percent or more. And in that situation, their ability to stay -- no matter what their motivation is, their ability to stay current on the loan changes because life happens: A job happens, I have to move, do I have to ask for permission from the lender to move. Do I have the ability to take out money to make repairs when something -- when a heater goes. A divorce happens, life happens. And so that's why the loan-to-value ratio and a cap on the loan-to-value is really important. And that's an element that is currently missing from the plan to use the bulk of the funds.

MR. HUDSON: Mr. Carey?

CHAIR CAREY: Yes.

MR. HUDSON: On the innovation fund, if I was concerned about elder abuse and people taking advantage of the elders and refinance schemes, even though we don't provide for principal reduction and a cash-out refinance, could I come with a program under the innovation program -- the innovation fund that does that?

MS. RICHARDSON: You can certainly propose anything that you want to propose. I don't think that we --

MR. HUDSON: But, I mean, the Treasury -- oh, so what would happen is --

MS. RICHARDSON: I don't think that there --

MR. HUDSON: -- we would submit it to Treasury, and Treasury would either sign off or not sign off, right?

MS. RICHARDSON: Right.

MR. HUDSON: Got it.

MS. RICHARDSON: I think at the very beginning, there were some proposals that actually never made it into the official drafts, where a couple of states were talking about having special programs for teachers who had been laid off, and Treasury was not very excited about carving out things based on specific occupations. And I don't know whether, you know, something that did a specific age group would pass the test; but they shot the occupation thing down pretty quickly.

MR. HUDSON: Yes, so to Ms. Roland's point, it sounds like the Agency is challenged at figuring out how to segregate those folks that refied for the 52-foot yacht from the folks that refied because somebody told them they needed a new porch or new air-conditioning.

So the question is whether you can instruct us on how we can segregate those people that have been taken advantage of in poor communities and get Treasury to accept some sort of segregated fund.

MS. HAFFNER: The response as reflected in the resolution that's in front of you, would be, I think you can identify who got a subprime loan. And we know that subprime loans are leading the foreclosure crisis. And we know that subprime loans were also overwhelmingly -- over 60 percent were more refinances. And so I think that's one approach that you can include under the umbrella of people who obtained subprime loans, with the acknowledgment that it was the subprime lending crisis that sort of was the leading edge of all of this, and that that was because an appetite on Wall Street for subprime loans to sell to investors.

MR. HUDSON: Yes, so the point -- and I think it really requires a specific proposal, but subprime lending includes a lot of folks. There's only $700 million. So it's unfortunate, but there aren't enough dollars in government, including not enough dollars that have been allocated to the state of California, to address all of the borrowers that are having problems.

So everybody is going to have to make some hard decisions. And we took a first shot at it, and I think the innovative fund is to say, if there's a better way to do it, let us know, and we're more than happy to figure out if there's a way for the lenders to do a higher leverage, we're more than happy to support that.

I personally don't believe banks are committed to that. I'm not even sure they're committed to a 50-50 match, no matter who you talk to or how long you talk to them, because they have spoken louder with their actions than with their words. And the people wouldn't be here today depressed, if banks were doing the right thing across the board.

So we are not perfect, and we are trying very hard and I think we are open -- and I heard from the staff, and I think the Board would support -- we are open to suggestions, ideas that provide -- that can leverage these dollars farther and can meet the neediest of the needy.

So -- that's all I have to say.

CHAIR CAREY: That's an excellent summary.

Are there other comments from Board Members?

MS. MACRI-ORTIZ: I just have a question.

CHAIR CAREY: Yes, Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: I'm trying to figure out, in terms of your pilot program, are you dealing with seconds as opposed to firsts? And where is that leaving the borrower?

MS. HAFFNER: So in all candor, in our pilot, because it's a pilot, we are starting with folks who have a first lien. We anticipate that we will expand to folks who have the first and second that are serviced by the same servicer, which is not uncommon, although it's also not necessarily common.

And thirdly, the pilot provides for the opportunity for second liens to be treated in the same way as first liens are, that the principal can be retired at net present value to get somebody into a situation where they're -- to right-side their loan, I guess.

MS. MACRI-ORTIZ: I was just thinking, because from my experience, the only way that we would be able to resolve those types of problems is because the first was what the person could afford, the second would be what dragged them down. And the only way you could really do it is if you were dealing with a second, not to give them a payment they could afford to have, but to get rid of it.

MS. HAFFNER: Right, right.

MS. MACRI-ORTIZ: I mean, in terms of reality, most of our folks out there, if they could get rid of that bad loan they got into and just went back to their first, they could survive.

And I'm just wondering, on the interplay, when I think about it, the more I think about it, it's like, how do you deal with that, particularly with different lenders?

MS. HAFFNER: There is a combined loan-to-value cap in the local pilot, and that's of 125 percent of the loan's value. And the way we deal with that is through negotiation. And I think the second-lien holders know that when somebody is already underwater, that what they have is not worth a lot. And so their loan can be gotten rid of through this pilot, through the net present value of what they've got.

I don't know if my colleagues would add anything.

MS. MARIAJIMENEZ: No, I wouldn't add anything other than to say that's still in the interest of the investor. And so we've been in discussions with the bank on that, on that concept, and they understand that as well.

CHAIR CAREY: Great.

Well, the innovative program is about to get off and running. I think the application period is --

MS. MARIAJIMENEZ: Now.

CHAIR CAREY: -- short, if I recall.

MS. MARIAJIMENEZ: Right.

CHAIR CAREY: Timely.

And it looks like you'll have your program off the ground in July, which is great, as your localized demonstration.

We are moving towards an October 1 beginning, with November kickoff.

It sounds to me like there continues to be thinking and flexibility necessarily all the way through as we work our way through it.

MR. SPEARS: Absolutely.

CHAIR CAREY: And I think that's what the Board wants and that's what the staff wants. And I think the dialogue will continue. And I want to thank you very much for what was an excellent presentation and for the folks that you brought in today.

MS. MARIAJIMENEZ: Thank you. And we appreciate that. And we will continue dialogue with the staff at CalHFA.

CHAIR CAREY: Great.

MS. MARIAJIMENEZ: To conclude, we do ask that the Board consider the resolution that's been submitted. And the organizations here today respectfully request that the Board take action on that resolution today.

CHAIR CAREY: You know, I need to just point out procedurally, under law, we cannot take actions that are not agendaed. So that would have to be put off to a future agenda. But we have the resolution and we appreciate the work that went into it.

MS. MARIAJIMENEZ: Thank you. And we appreciate that, if that could be addressed at the next Board meeting.

CHAIR CAREY: Great.

MS. MARIAJIMENEZ: Thank you.

CHAIR CAREY: Thanks very much.

With that, we're going to take a ten-minute break.

(Recess from at 11:29 a.m. to 11:46 a.m.)

CHAIR CAREY: We're back in session.

That met the Chair's definition of ten minutes.

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Item 10. Public Testimony

CHAIR CAREY: I'm going to divert momentarily from the agenda. We have one speaker who has filed a speaker's slip who has asked for the opportunity to speak to us for a couple of minutes.

Michael Profant?

MR. PROFANT: Good morning, Directors, Mr. Chairman. Thank you for giving me a few minutes to address you at this meeting.

The topic that I wanted to raise with you today is the issue of CalHFA giving temporary exceptions to borrowers from the requirement for owner occupancy that's embedded in some of the loans. I don't know if that's true of all of the loans that you issue, but I guess it's true in my case.

So I purchased a below-market rate home in Fairfield back in the beginning of 2008 through the city's inclusionary housing program. So it was probably about seventy- -- maybe 75 to 80 percent of what a market-rate home would have sold for. That was the approximate discount.

In January of this year, I was laid off from my job with Solano County due to its budget crisis, and have had no luck in finding a new position.

Given the state's high unemployment rate, I guess of around 12 and a half percent, I think it's unlikely that I'll find a position in the near future, and highly unlikely that if I do find a job, it will be in commuting distance of Fairfield. So I find myself in a situation where, you know, it's essentially impossible for me to fulfill that requirement and also meet my mortgage obligations to the Agency, since I'm essentially living on unemployment which, you know, would cover the mortgage and housing expenses, and that's it. So, you know, staying in the house is not an option right now.

And my main objective is to pay my mortgage payments. That's what I want to accomplish. They've always been paid on time. They continue to be paid on time.

In normal circumstances, I would sell my home, right, to an income-qualified individual. But, unfortunately, these are not normal circumstances.

Now, the houses are worth probably about less than 50 percent of, you know, what they originally were. And so I paid 75 percent, so that's still a dramatic difference between what I paid as a moderate-income person and what the current market value of the homes -- you know, what the current market value is.

So selling it at this point is very difficult because essentially, in my case, it might be doable and would result simply in the loss of my life savings, which I used as a down payment.

I think in a lot of other people's cases, you know, they simply wouldn't be able to sell it and pay off their loans; so they would be in a foreclosure situation or a short-sale situation.

You know, and, of course, the house would then be lost; it would no longer be a below-market-rate unit, and it would go through the foreclosure process and all of that.

You know, I've talked to the City of Fairfield. The City of Fairfield is willing, on an annual basis, to waive this requirement for homes in its inclusionary housing program because, of course, Solano County/Fairfield, apart from Merced, that's probably the area that's been hardest hit.

I imagine people on the Coast, you know, who have inclusionary housing units are probably not in this situation because they could probably still sell them at the price that they paid.

I submitted a letter on May 7th to CalHFA requesting a temporary exception to this requirement based on my hardship circumstances. I haven't heard back yet. And my understanding is that's, in part, due to the fact that this policy is being reexamined. That's what I was told, at least, by staff, when I called.

And the first thing I wanted to say is, I definitely think that staff should not be reevaluating whatever the existing policy is without the Board's input and approval, because that obviously has a big impact on those of us who find ourselves in this situation.

But, you know, it seems to me that the City of Fairfield's policy is a fair one. On an annual basis, having someone certify under penalty of perjury that their circumstances have not changed, they're either unemployed and cannot pay the mortgage or have only been able to find employment, say, on the other side of the state; and in this market, you cannot choose. You know, you have to take what's offered. If I get a job in Southern California, I'll have to move there, even though I've never had any desire to move down there. And I would not be able to pay the mortgage and rent on an apartment down there.

So I guess what I'm saying is, for some of us, I think the consideration that we need is that there might be a period of a few years before the market stabilizes to the point where one could realistically sell the house and not take a total loss of one's life savings. I mean, I do think that within three or four years, things will have at least leveled off.

You know, this is not an issue of renting out the house like it's an investment. It's not an issue of making profit on a rental property. And I believe that that was the public-policy reason for having that restriction, because you didn't want people who had an income and could pay their mortgage moving out and then renting the house for a profit.

You know, this is just a matter of allowing us to meet our loan obligations, you know, in a very difficult situation that essentially has not been seen since the 1930's.

So, I mean, that's why I'm asking for your consideration that you could maybe approach this as an annual issue where you contact everyone, determine what their circumstances are, you know, and why they cannot live in the house and, you know, give some consideration to us until the market stabilizes and we can realistically sell. So that's what I wanted to just bring to your attention today.

I don't know if there are any questions for me.

CHAIR CAREY: Steve?

MR. HUGHES: Mr. Chairman, this is a very timely issue. Mr. Profant's response from staff that we're reviewing the policy is accurate. We have changed the policy within the past week or so.

And here's the issue for the Board: It's not a policy issue as much as is a tax-law issue. Taxes and bonds -- the federal law behind tax and bonds require owner occupancy. In fact, they leave us some leeway, but not much. And we have made exceptions in the past that have been very, very limited and very short-term. We've required a certain amount of documentation and a lease, and that sort of thing. And then we would do it on a temporary basis. We were very reluctant to renew these leases.

Obviously, with the current market condition, the whole idea is to give time for the borrower to work out a situation with their employer or something else, perhaps have a one-year assignment in their job and they come back in one year. Those were the kinds of exceptions we made in the past.

But now what we find is that the market imprisons folks in their homes because they can't possibly sell it and not take an enormous loss.

I can sympathize with you because I was in such a situation where I put a huge amount of life savings in a home in the early nineties; was upside-down. And, you know, I was not in the same situation. We were able to wait this out. But had I been in the situation, it would have been very difficult.

So we went back. One of the things that took so much time is that we have two bond counsels to consult. We consulted with those folks. We have found a way, we believe, to comply with the law and extend this to this current circumstance where we can allow the extensions of these leases for two, three years, if that's how long it takes for the market to come back sufficiently to minimize these losses.

So you may be hearing a different answer soon.

We'll work with you on your personal situation.

MR. PROFANT: Okay.

MR. SPEARS: But I'm really glad you brought this up because this gives us an opportunity to let the Board know of a particular situation.

Here again, in California particularly, this is a real issue for us.

MR. PROFANT: Okay, all right. Wonderful. And thank you.

CHAIR CAREY: Thank you.

MR. PROFANT: So it sounds like there's at least some hope in the policy formulation that you've come up with.

MR. SPEARS: Yes, sir.

MR. PROFANT: Okay, wonderful. Thank you for your time.

CHAIR CAREY: Great. Thank you.

MS. MACRI-ORTIZ: I'd like to just ask one question.

CHAIR CAREY: I'm sorry, yes.

MS. MACRI-ORTIZ: The home was built in conjunction with the inclusionary house?

MR. PROFANT: Yes.

MS. MACRI-ORTIZ: Is it a deed-restricted home?

MR. PROFANT: It is, it is. And, you know, the

City of Fairfield which I contacted about this issue after my layoff, and they are obviously, because of how hard-hit Fairfield specifically is and Solano County, you know, they're finding that they have to make an exception to that because, you know, there are so many people that are being laid off, and it just isn't really realistic to sell in this market. So they are making exceptions, and they do understand that people -- it's just not -- it's an extreme hardship to have to comply with that in the current circumstances.

CHAIR CAREY: Okay, thank you.

MR. PROFANT: Thank you.

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Item 4.b Report on the Implementation of U.S Treasury Department programs: New Issue Bond program

CHAIR CAREY: Okay, we will return to the agenda, Item 4.b, New Issue Bond program.

MR. SPEARS: Mr. Chairman, we have a number of items here in a row that are, again, just briefings to the Board on major activities staff has engaged in.

I've lined up staff to roll through these items.

Obviously, as we go along, please ask questions and interrupt when you have a question.

But we have -- Bruce will take up the New Issue

Bond program update. But I've also brought Gary Braunstein, our director of Homeownership lending and Bob Deaner along because we will use the capital from this program to renew lending in Homeownership and also Multifamily. So I thought this would be a good time to tell you what we are going to use these funds for.

Bruce?

MR. GILBERTSON: Thank you, Steve.

Mr. Chairman, Members of the Board, in 2009, the U.S. Treasury, both of the GSEs -- Fannie Mae, Freddie Mac -- and the Federal Housing Finance Agency, supported this program of initiatives for state and local housing finance agencies. We talked a lot about this during last year.

At the end of the year, one of the elements was this New Issue Bond program. CalHFA elected to apply for up to $1.4 billion of New Issue Bond Program under this initiative. Roughly, a billion dollars of this is available for our homeownership program, and almost $400 million available for the Multifamily program.

Some of the elements of the program were such that we had options to rate-lock back in December or defer. I think we mentioned to the Board in December 2009 we did rate-lock based off the current ten-year Treasury bond rate at that time. It was a 3.49 percent interest rate.

Unfortunately, especially in the last two months, if you're following those kind of markets, you know, the ten-year Treasury bond has been trading as low as 2.90. It's rallied, and it's a little bit over 3 percent today as we speak. So we're already impaired from an interest perspective from that program.

The other elements is that we had three times to release from escrow these bond proceeds. In some cases, we had to issue market bonds as a part of the program to finance the Homeownership program.

Many HFAs, like CalHFA, has yet to use the New Issue Bond proceeds. So Treasury was very willing to allow the National Council of State Housing Agencies to facilitate a conference call with all of the states. And we talked about a number of things, including three of the things that are most important to CalHFA.

The first is to extend the expiration date. The design of the program is that all of the bonds to be used by the end of this calendar year with only five and a half months to go. It's unlikely we could use $1.4 billion of those proceeds.

The second was to allow the HFAs to relock the interest rate, since the interest-rate markets have declined as far as they have.

And the third option was to allow more than three escrow release dates.

We haven't used an escrow release date. That's arguably less important to us. But if they want to give us more opportunities, that would be helpful, especially if the program is extended.

You know, the Treasury representatives on the phone call -- this is last month, towards the end of June -- were very receptive to this, and really wanted to be supportive.

What we know today is that this is in the hands of the Treasury lawyers as they look at the legislation to make sure that these types of program changes would adhere to the federal legislation that backstops this whole program.

With that, I'll turn it over to both Gary and Bob to give you an update on where they are with their programs that will be the lending programs that we'll be financing with the New Issue Bond proceeds.

MR. BRAUNSTEIN: Good afternoon, Board Members, Chairman.

At past board meetings we've talked about a new lending program and product that we'll be launching soon, we're pleased to announce. We're planning to be on target to launch the new lending program this Monday, July the 19^{th}.

Just to recap from what we've talked about in the past, the product, the program will be an exclusive arrangement that we have as an HFA with relationship and partnership and with Fannie Mae.

It will be financed through mortgage-backed securities via the NIBP funds and the capital market.

From a risk-management standpoint, we've spoken in the past that the mortgage-backed securities will be the direction that we go versus holding whole loans, and we'll be imposing a lender repurchase, early-payment default provision that will help from a risk-management standpoint.

Some of the limitations we may have from a loan-production standpoint will be agency warehouse, warehouse limitations or availability and, of course, capital market rates.

We have put together a very proactive and diligent marketing and outreach in business development and training initiative that we will roll out in conjunction with the launch of the product. So as planned, we'll be shooting for July 19^{th} to launch the product officially and look forward to obviously getting back strong in the lending business.

CHAIR CAREY: Oh, you have a question, Gary.

MR. BRAUNSTEIN. Sure.

MS. MACRI-ORTIZ: I just have one question. If we don't get some relief from Treasury on the interest rate, how is that going to impact the program?

MR. BRAUNSTEIN: Well, our focus groups, when we were developing the product and we had these focus groups about two or three months ago, the interest rate itself wasn't really the driving factor from the attendees that were part of this focus group. It was the eligibility and the availability of this type of product for our type of borrower profile.

At the time we had locked in with a full spread of about five and three-quarters that would be rolling the product out, mostly we'll be rolling in the neighborhood of about five and a half to five and three-quarters without the necessary need of a relock.

If the NIBP allows us the opportunity to relock, I think we'll judge what our volume is to date when that happens, see if we need to make an adjustment to the rate, or keep it the way it is and still attempt to be in a full spread to the Agency.

MS. MACRI-ORTIZ: Do you think you can actually do loans at this interest rate?

MR. BRAUNSTEIN: Again, our focus groups were saying at the time the difference between the five and three-quarters and what market rate was at that time was about 50 to 75 basis points. Again, it's a no-MI loan so, again, the eligibility factor and the availability factor to the borrowers and with the lenders' opportunity of offering this product was really the driving force to their excitement of the program.

I think initially, we'll probably go out at a little bit below the five and three-quarters mainly because of today's market conditions, but I don't think we need to go much lower than that.

And again, from the presentations that we've been offering out to our lenders on a coming-soon scenario, because we haven't publicly launched the product, it's been very favorable as it relates to those types of rates. But at the end of the day, once we do launch, we'll see the type of volume that comes in and we'll revisit it in a month or two, depending on the timeline of the NIBP relocking.

CHAIR CAREY: Steve?

MR. SPEARS: One barrier that's out there -- actually, I was just talking to Mr. Vega in the hallway about -- is, first-time home buyers, just home buyers, in general, are having a very difficult time landing homes because of investors. In fact, he was letting me know that some of these folks are international and rolling into town with lots of cash at a very, very short close period and beating out first-time home buyers every day. And that's going to be something that we're going to have to overcome with product terms and that sort of thing. But it's going to be a tough market, I think, at first until we get rolling.

MS. MACRI-ORTIZ: So you're saying availability of product is going to be more of a challenge than getting this type of a loan?

MR. SPEARS: Right. There will be this reality of who the competition is out there. And then there will be the rate, the product terms, and all that sort of thing.

But the first thing we have to overcome is this idea that you go head to head with somebody who has a -- I wouldn't say a briefcase full of cash, but they have cash available. And it's a very difficult battle to win for a first-time home buyer. So we're going to do our best to overcome that, first of all.

MS. MACRI-ORTIZ: We've got to use our REOs. That's my dream. We've got the product, we've got to put them together.

MR. SPEARS: That's right.

CHAIR CAREY: Really.

Katie, yes?

MS. CARROLL: Just one question.

When do you expect that we will have to sell market bonds?

MR. GILBERTSON: The market bonds only relate to the Homeownership program. Based off of an announced date of next week, it probably won't happen until sometime in the fall.

I have been saying for the longest time I thought it would be the end of September. I think it's probably more like October, November. We'll try to close clearly before the end of November, I would guess.

Is that going to compete with other --

MS. CARROLL: No, no, no. I'm just trying to figure out in my mind how that works with the rates that have been locked in under the federal side versus how much we'll have to pay in the market and how that --

MR. GILBERTSON: Well, what we've done, kind of even with the market rate at 3.49 and we add the spread for a Triple-A backed bond, that's going to produce something in the 4.09 range.

We think the market bonds would bring the overall borrowing costs down to about 4 percent. And so that's kind of our starting point.

Remember, though, when you think about the borrower's loan rates, you have to add 25 basis points for servicing right off the start. You have to cover our cost to issue the debt, which is about 15. And in this program, you have an 80-basis-point guarantee fee that Fannie Mae collects because there's no -- so you start adding these things, and you get quickly into that 5.25 to be a break-even kind of loan rate.

MS. CARROLL: Okay, thank you.

MR. GILBERTSON: Yes.

CHAIR CAREY: Bob?

MR. DEANER: Okay, on my side, we've got a nice pipeline built of about 180 million, 190 million of 68 million is moving forward, another 120 is in the process.

Again, being the conduit issuer only and not the direct lender, we're waiting for the lenders to give their commitments on the credit enhancement of the bonds. Treasury requires it's either Fannie Mae, Freddie Mac, or FHA.

But there's at least, I believe, 68 of the 188 we're processing have commitments, so those deals will go forward.

We're working closely with Bruce to get those transactions closed and do our first break. They're going to be at various stages. And if we get additional draws from the 3 to 6, that will alleviate a little pressure of trying to close all these deals at the same time because that's another issue, that is getting simultaneous deals that are getting either FHA or Freddie Mac or Fannie Mae credit enhancement to close. But we're getting strong demand.

From an interest-rate standpoint, because these deals are so far along and they're larger transactions and they have a lot of costs embedded in them, 20 or 30 basis points aren't going to make or break these deals.

It would be a benefit if we relocked to the cash flow in the project, that could go back to the project. But it's not going to be a determining factor if they move forward or not. They'll close these deals because a lot of these deals have been in progress for a couple of years now and we're talking to folks daily.

If we can extend it to next year, we know there's a pipeline of deals for next year that folks are looking at, that that would be beneficial, too.

So we hope that Treasury makes a decision to extend and relock.

MR. GILBERTSON: Just to add on to that for Ms. Carroll. You know, on the Multifamily side, we actually do have a very small sale occurring this week that's kind of a companion bond to this first conduit transaction.

MS. CARROLL: Thank you.

MR. SPEARS: One final note on the New Issue Bond Program and this idea of approaching Treasury on this change in the terms. It is in the hands of the Treasury attorneys. I think we all remember how long it took them last year to try to figure out how to get all this done. So I was in contact with the Treasury official who is shepherding this through the process as late as Wednesday of last week, and he just said, "It's with the attorneys, and I don't know when it's coming out."

So I don't know what to tell you about the timeline. We're moving ahead with renewing lending. We'd like to have those more beneficial costs so we can offer more beneficial rates; but at present, we're at the mercy of the U.S. Treasury's legal division.

So unless there are other questions on Item 4 issues, we can move right on down the line to Item 5.

And we'll start off with Bob.

MR. DEANER: Two quick updates.

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Item 5.b Report on contract administered programs: TCAP program with State Treasurer's Tax Credit Allocation Committee

MR. DEANER: TCAP, I won't talk about much because I want to thank Bill for the kind words about my staff. I'd like to thank my staff. I'd like to thank Tom Hughes' legal staff. Combined with everybody, we're able to help Bill and TCAC put this money out for the project. So very successful there.

And we were able, for the Agency, to generate some additional fee income. We couldn't do this -- we'd like to say we could do it for absolutely free. But we're a self-funding agency, we do need to pay the bills. And so we did generate additional fees on this. And it could be up to a million, a million and a half dollars. So that would go in a year where it's been a tough year for CalHFA. So that's always a benefit to CalHFA also.

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Item 5.a Report on contract administered programs: MHSA program with Department of Mental Health

MR. DEANER: On the MHSA program, that's been a very successful program. That's been out there for a while. We have 25 deals closed to date.

I am going to pass it over to Kathy Weremiuk. She's been the chief of the program. And I'm going to let her give a little history and update for some of the Board members that weren't around the last few years, that we've worked on this process for probably the last three to five years. But we'll make it brief.

MS. WEREMIUK: Chairman Carey and Members of the Board, it's a pleasure to present the Mental Health Services Act housing program.

This program comes out of the Mental Health Services Act which was passed by the voters in 2004. I think people may or may not remember that it was authored by Senate Pro Tem Darrell Steinberg, together with Rusty Selix, who is with the California Council of Community Mental Health Agencies.

MR. SPEARS: Kathy, can I just ask you to pull the mike a little closer?

MS. WEREMIUK: Oh, sure.

The Mental Health Services Act was authored by Senate Pro Tem Darrell Steinberg, who stayed very involved in this program and the act since 2004.

In 2006, the Agency was asked to work on a housing component of the program. The Act attempted for the first time to develop, to define housing service for the homeless mentally-ill. That's pretty revolutionary in the mental-health world. And we've been a party to that.

We worked -- we negotiated the program together with the State Department of Mental Health with Jonathan Hunter's group, with representatives of the 58 counties in California and Housing California.

We arrived at a program definition in, I think, 2007. We entered into an interagency agreement in July of -- July 1st of 2008. So the program has been out for approximately two years.

We had just under $400 million allocated to us by 46 of California's counties. Fifty-two are eligible to participate. Fifty-two of the 58 counties are eligible to participate in the program.

And to date, 29 of those counties have sponsored housing developments that have come through the program.

As we, as the Agency, basically underwrite loan requests from developers for projects that include units for people who are homeless and mentally ill. And we loan funds and we also administer through Margaret's program an operating subsidy program that comes out of the same capital dollars.

We've put the program together, the two components. We put it together for rental housing, leveraging tax credit dollars, and local dollars and Lynn's dollars to finance housing that has units for the homeless mentally-ill. And we also financed 100 percent of shared housing, which is basically one- to four-unit developments that can't get financing in other places.

Today, after two years, we've committed 81 loans. Thirty in our first year, and this last year, 51. Twenty of the 51 were committed in the last couple of weeks. They were projects applying for 9 percent tax credits. And our staff basically pushed those through in just a few weeks, getting every single project that wanted to go to 9 percent tax credits through.

Last year, we've closed 25 loans, seven in 2008-2009 and 18 this last year. A number of the loans we closed recently were projects that had ARRA funds and 9 percent tax credits. And we were pleased that in last year's round, all about but two of the MHSA projects that applied for 9 percent tax credits received them. And those two, plus five others, received tax credits in the spring round. It was almost all projects that applied in the spring, and we had 20 apply again recently.

We've also changed the program recently and began to do sort of a forward commitment for small projects, so that a county can come in and say, "We want to do five group homes and we want to get a commitment from you for dollars, for MHSA dollars, so that when we go in to buy a house, we can say we have cash and we can do that." So that program, we're actually closing -- we anticipate closing our first loan under that forward commitment for single-family homes that are being used as group homes in the next couple of weeks.

To date, through the program, we have committed 1,350 units for people who are homeless and mentally ill. We have basically utilized through those commitments $216 million of the almost $400 million that we received. The total development costs of those projects was $1,000,685. So about 10 percent of our dollars are going into projects to purchase -- basically, to guarantee and hold units for people who have been living on the streets.

The experience of the projects that have closed is that people are stabilizing and they tend to recover when they have housing and they have services. So the program is working very successfully. I think probably the only drawback is that there's not more money in it.

CHAIR CAREY: Thank you.

Ms. Jacobs?

MS. JACOBS: Thank you.

For our next Board meeting, could we get a list of the projects by county?

MR. DEANER: Absolutely.

MS. WEREMIUK: *(Nodding head.)*

MS. JACOBS: Terrific. Thank you.

MR. DEANER: I wanted to add real quick to thank my staff on the MHSA side.

As with TCAP, they've worked tremendously hard to get these projects done. Twenty in the last couple weeks to meet the TCAP deadlines for applications.

Between the TCAP and the MHSA programs, my staff has done a fantastic job, and is working on well over a hundred deals. So I just wanted to give them recognition for the hard work that they've done.

CHAIR CAREY: Great.

MR. SPEARS: Thank you, Kathy.

MS. WEREMIUK: Thank you.

CHAIR CAREY: Thanks.

MR. SPEARS: Last but not least, Margaret Alvarez, our director of Asset Management, an update on the performance-based contract administration RFP that we're responding to. And there have been a number of changes with this proposal, so we'll have Margaret bring us up to date.

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Item 5.c Report on contract administered programs Section 8 Performance-Based Contract bid with HUD

MS. ALVAREZ: I'm sorry, I'm starting to feel like a broken record every time I come up here. But our PBCA contract has, once again, been postponed by HUD in Washington. So the bidding process is still not really officially underway. It was expected to be underway January 1.

The late version of the bidding contract had final comments that were due yesterday. So we expect any day the final version of the RFP would actually come out, and then we'd actually begin our bidding process.

But in the meantime, we have been busy. We selected a third-party contractor that would help us with that bidding process and also be the one who performs the actual work if we are selected.

HUD is telling us we can still expect all the selections to be determined by October 1st for a January 1, 2011, start date.

And the whole compensation piece of this that I discussed way back when has been reduced, but it's not reduced so much that it's not profitable. That's too many "nots." It's still very profitable. So we'll be bidding for that.

HUD would like to choose the lowest bidder, obviously. NCSHA has put in a letter of recommendation to HUD that they consider giving a first right of refusal to the housing finance agencies around the country.

Currently, 33 states are the PBCAs for their states, so it's a good source of income for those HFAs and their programs.

HUD, however, has made it pretty clear to all parties in their bidding-process meetings that they really don't want to consider giving HFAs first right of refusal. But the request is on the table. We'll see what happens with that between now and when the final bid package comes out. And once we bid, I can give more details, once all this is wrapped up, because it is a competitive bid. So we have to keep some things quiet until everything is decided, and then we can let folks know what the terms are.

MR. SPEARS: Thank you, Margaret.

I'd just add that at a recent meeting of the Board of Directors of the NCSHA that I attended, they told us that the October 1 target date for selection and the January 1, 2011, target date for starting up this new contract was, in their words, very aggressive; that they honestly didn't think that that could be accomplished. So that would be really terrific. I just put that word of caution out there.

They also have started a push for federal legislation that would put into statute a preference for state HFAs. I'm not sure what the success rate on that would be at this late date. But as Margaret said, HUD is focused on lowest cost. And they have said, though, that they would consider other factors in their decision.

And, obviously, we believe that a statewide administrator, such as a state HFA and CalHFA would provide a statewide policy and uniformity to the administration of Section 8 contracts. So, obviously, we think that's a really great idea, but we have yet to see what HUD finally says about that.

MS. ALVAREZ: I just wanted to throw in a last little thing on that. As a reminder, you know, 35 years ago CalHFA did the construction financing for the Section 8 properties when that program was new. And that's really kind of what CalHFA built its Multifamily programs on in the way-back-when days. So we're starting to see the first of those 30-year loans go out the door. Kind of bad timing for us, since we can't really offer new financing at this time. But our first couple of projects have actually termed out and have gotten affordable housing financing elsewhere, and plan to keep the buildings as Section 8 buildings.

So we do have 35-plus years' experience now in the Section 8 world. So being the PBCA is something we can do and something we have knowledge of and something I'm sure we will be very successful at performing if we're selected.

CHAIR CAREY: Great.

Any questions?

MS. MACRI-ORTIZ: Just, do we know who the competition is? I mean, what groups would be applying?

MS. ALVAREZ: No, we don't.

MR. SPEARS: Not yet. We will soon.

CHAIR CAREY: Okay, thank you.

MR. SPEARS: Thank you.

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Item 6. Facilities Update

MR. SPEARS: The last item in open session here, I believe, is an update on Sacramento facilities.

I've asked Howard to come forward.

We're still moving forward with an October 1 date to consolidate our two locations at the Meridian and at the Senator Hotel.

CHAIR CAREY: I'll just say, great memo. So let's focus on things that aren't in the memo.

MR. SPEARS: Exactly.

I think the most important thing is that when we started this process of space planning three years ago, we did not have the volume of single-family Asset Management, shall we say. The loan servicing area has been expanded broadly. We have a number of folks who are working for Chuck now in the REO area that we did not have on board then. So we've had to adjust. And rather than put the bulk of those folks in the new facility at $2.65 a square foot, we elected to -- of course, we started the loan servicing center in West Sacramento at a substantially lower cost, and that is working out very well. And given the way the market is, we have space next door at about the same cost on both sides.

So what we've done is rather than house the Hardest Hit Fund group that we started up to administer that program in the more expensive space, those folks are going to go over there.

And also, the lion's share of the folks that are working for Chuck in the REO management, portfolio management -- and those folks work together, they're doing the same things. There's a lot of synergies there, and that makes a lot of sense.

So what we've managed to do is move a lot of folks across to West Sac. Over the years, as I'm sure this activity will taper off, we'll move folks back to the building. There is room for growth in this new facility. So that's the overall plan at this point. It provides us with a great cost-effective place in West Sacramento. And then as we're able to, we can move folks back.

CHAIR CAREY: Anything else that's not in the memo?

MR. SPEARS: I don't believe so.

Howard, anything else that's not in the memo?

MR. IWATA: We're currently in negotiations for the lease in West Sacramento. And hopefully, we'll get it. We have a draft form right now, the attorneys are looking over to formalize it.

That's pretty much it.

CHAIR CAREY: Any questions?

It seems like a very practical approach to the space needs.

MR. SPEARS: Thank you.

CHAIR CAREY: Great.

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Item 7. Closed session under Government Code Section 11126(e)(1)

CHAIR CAREY: We are now going to go into closed session in accordance with Government Code section 11126(e)(1) to confer with and receive advice from counsel regarding litigation in connection with In Re Lehman Brothers Holdings.

(Closed session held from 12:28 p.m. to 12:41 p.m.)

CHAIR CAREY: We're back. We're in open

session again.

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Item 8. Reports

CHAIR CAREY: Item 8, Reports. Brief reports.

Anything you want to bring up?

MR. SPEARS: No. The only thing is, we always include something back here on the loan-portfolio update. And I would encourage you to look at that.

We continue to see some progress in those older loans. And the reason for that is, the number of people in the organization and the equipment that we're giving them to do their job over in West Sacramento. So we are seeing some of that.

But on the REO inventory scale, Chuck and I have had long conversations about this.

We continue to see a flow in of those, and the market for selling those is tough. So we're probably going to see an increasing inventory of REOs in the future. It gives us more inventory for the possible development of a first-time home buyer program. We'll see.

So that's very important.

Also, the update on the variable-rate bonds, I would direct your attention to that.

I continue to get information faster on

delinquencies. And we saw steady improvements -- I did see one slight tick-up in the 60-plus category. And that caused me a bit of worry. It's surprisingly not in the *interest only PLUS* category of loans. Those, I'm keeping my eye on particularly. We put together a loan modification program just for the *interest only PLUS* loans within the last month to allow those borrowers to continue to just pay interest only.

It really is a way for them to hang on until the Hardest Hit Funds program comes out. So we put that in place and we're just trying to make progress on those delinquent loans.

MS. MACRI-ORTIZ: Just to share something, I was on the shuttle coming in with a guy that's working on small business loans; and there's, I guess, some money that's coming in to try to generate small businesses. And maybe if some money comes in for that, maybe partnering with some of the economic development people around the state to give some construction, to be doing some of the work on some of these homes.

MR. SPEARS: Yes, the REOs?

MS. MACRI-ORTIZ: Yes, to try to, you know, make the best of a bad situation.

MR. SPEARS: Right. We have talked to a couple of different individuals, one of them is Jay Stark that

Linn knows. And we're still trying to put together a program that works. It's a little difficult with NSP money. But the idea is you use NSP money to purchase the homes, fix them up, turn them around. We're still trying to work out the details on something like that.

That's it for the reports.

CHAIR CAREY: Great.

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Item 9. Discussion of other Board matters

CHAIR CAREY: Other Board matters?

MS. JACOBS: Do we have a legislative report or not?

MR. SPEARS: I don't believe that we do.

MS. OJIMA: I didn't get one.

MR. SPEARS: Okay, we do not.

MS. MACRI-ORTIZ: Do you have any progress on that Bay Area?

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

We have a great deal of progress in this respect: That for a great while, the idea was that CalHFA would be the issuer, and that's the way it had to be; and that we had approached another organization in the state, called Cal Mortgage, it is the Division of the Office of Statewide Health Planning, I think -- is that the correct -- it's "OSHPD," whatever that stands for.

MS. CARROLL: Yes.

MR. SPEARS: They guarantee loans, they specialize in health facilities. Because these are group homes for clients -- former clients of the Agnew Center, they qualify. But, of course, as we all know, after dealing with this for a very long time, these are not real-estate loans.

Katie, Bruce, Tim, Tom, we all met in the Department of Finance.

The Department of Finance has been wonderful in trying to pull all the different parties together.

We have several options now that we did not have before. If CalHFA could remain the issuer and we could just -- if nothing else works, we could still issue bonds and go forward.

That probably results in the highest interest rate for these homes, and that's not what we like. But what's happened now is, I believe -- don't let me speak out of turn here, Katie -- but I believe the California Health Facilities Finance Authority, which is under the direction of the State Treasurer, has the ability to issue the bonds as a conduit issuer, with Cal Mortgage being the mortgage guarantee. They would like to change the transaction a little bit, and I think that's where we're headed.

Right now, what's happening is, we have given them a lot of information or we're in the process of giving them a lot of information on what it would cost for everyone if we were the issuer and they're collecting information from Cal Mortgage and CHFFA on what it would cost if CHFFA were the issue issuer.

They're going to do a side-by-side. We're planning a meeting either Thursday or Friday, I believe, Fred, is what Karen Finn has told us, and make a decision which way is the best, and then we're going to head down that path.

The only issue that remains is that our target for cashing out of this, either through one method or another, is February 2011, the Bank of America line of credit on which these loans are placed at this point is due. And we are assuming that we will need to zero that out, if you will. And we've emphasized that. Our person at the Department of Finance who has been helping us with Karen Finn. Katie has been very involved in this.

We all know the deadlines, so we're all proceeding along those lines.

CHAIR CAREY: Any other questions? Issues?

(No response)

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Item 10. Public Testimony *(continued)*

CHAIR CAREY: Okay, this is the time when we set aside for public testimony for anyone who wishes to address the Board on a matter that's not on the agenda.

If there's anyone?

(No response)

CHAIR CAREY: Seeing none, before I adjourn, I just want to say, we've heard a lot of work done by staff today. And I hope you share the Board's appreciation for the many tough projects that have been going on for the last few months. And a lot of folks have been working hard to get a lot of things done. I appreciate it.

MR. SPEARS: Thank you.

CHAIR CAREY: With that, we're adjourned.

(Gavel sounded.)

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

REPORTER'S CERTIFICATE

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand on the 28th day of July 2010.

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

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