STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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

Wednesday, March 16, 2011
9:37 a.m. to 1:15 p.m.

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Minutes approved by the Board of Directors at its meeting held:
MAY 19, 2011

Attest:

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

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APPEARANCES

Board of Directors Present:

KEN ALEX
Director
Office of Planning & Research
State of California

PETER N. CAREY
Acting Board Chair
President/CEO
Self-Help Enterprises

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

CATHY CRESWELL
Acting Director
Department of Housing and Community Development
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 II
Corporation for Supportive Housing

HEATHER PETERS
for TRACI STEVENS, Acting Undersecretary
Business, Transportation & Housing Agency
State of California

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith

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

CalHFA Staff Present:

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

THOMAS C. HUGHES
General Counsel

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

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BE IT REMEMBERED that on Wednesday, March 16, 2011, commencing at the hour of 9:37 a.m., at the Burbank Airport Marriott Hotel and Convention Center, Pasadena Room, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: Okay. I would like to welcome everybody to the March 16th meeting of the California Housing Finance Agency Board of Directors.

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Item 1. Roll Call

ACTING CHAIRPERSON CAREY: Our first item of business is roll call.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Present.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Present.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Here.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here.

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

MS. CARROLL: Here.

MS. OJIMA: Mr. Shine.

(No audible response.)

MS. OJIMA: Mr. Smith.

(No audible response.)

MS. OJIMA: Ms. Peters for Ms. Stevens.

MS. PETERS: Here.

MS. OJIMA: Mr. Alex.

MR. ALEX: Here.

MS. OJIMA: Ms. Matosantos.

(No audible response.)

MS. OJIMA: Mr. Spears.

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: Just a couple of comments. We will try to move ourselves along, recognizing schedules, and see if we can't wrap up before lunchtime today, before the Board turns against me.

And we may rearrange the agenda slightly and move the discussion of the business plan forward a little bit since Mr. Hudson has to leave by 11:00. I'd really appreciate his involvement in that conversation.

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

MR. SPEARS: Thank you, Mr. Chairman, and welcome to Members.

And we have a very ambitious agenda today. I think we can move right through some of these update items, but of course the main objective today is to discuss the business plan for the next year. For the newer members, the procedure is we have this discussion today. The staff takes input from the Board members, goes back, puts together a full-blown business plan, brings it back to the Board in May with an accompanying operating budget. That's -- that's the standard procedure.

So I think what you'll see today, though, is a -- more of a discussion about where we are in the process. And I think, you know, there have been several developments since the last Board meeting. The audit report was released. We are still having discussions with various parties about that.

All of the KYHC programs are now operational, and we are working to get servicers on board. You're going to hear an update about that.

But I'd like to just spend a couple minutes on two other developments. Di and I had the opportunity to attend NCSHA's annual legislative conference always held in March in D.C. And we -- we had a very interesting time there. It was -- we heard from a lot of administration officials, a lot of folks from Congress.

But I'd like to blend in one other final development that's happened since we last met, and that's the white paper, the long-awaited white paper, from the Administration on the -- reforming the housing market in the nation.

Clearly there was one thing that was absent from that white paper, and that is how the Administration wants to deal with affordable housing going forward. There's a lot about -- in there about the housing market nationally, conventional, requirements, things that Secretary Geitner and Secretary Donovan want to see done.

Yesterday Secretary Geitner testified before Senate Banking, I believe, Mr. Chairman, and -- talking about the white paper and what they want to do. But I think we're at a crossroads here. We're at a crossroads for affordable housing. We're at a crossroads for HFAs. And unless you're Yogi Bear and just takes the fork when he comes to the road, I think most people stop at a crossroads, pause, think about what direction you want to go and how you want to proceed and what your role is going to be.

And I'm not sure we know all that right now, but here's what I know and believe in my heart, and that is we need to continue to get this Agency in the sort of financial shape that we need to be in to take advantage of whatever opportunities are presented going forward.

Fannie Mae is going to go away. Freddie Mac is going to go away. The Secretary talked about that again yesterday. And the question is then what's going to be the role for HFAs going forward?

There are some people who think that the federal affordable housing programs will be delivered through the state housing finance agencies, so on a local level. And that's very possible. We need to be ready to do that if that's what it winds up to be.

Secretary Geitner said that they intend to introduce legislation and move forward in this in the next two years, for obvious reasons. And I think we need to be engaged in that debate. I think the Administration needs to be engaged in that debate. But this Agency still has a ways to go, as we can tell from the audit report, to be in a position to really take those opportunities and really run with them when they come up. We just have to be ready to go in -- flexible enough to go in different directions.

So it would be a -- I keep saying this to my wife, the next couple of years is going to be really interesting. And she said, "That's what you said two years ago." So I --

ACTING CHAIRPERSON CAREY: You were right.

MR. SPEARS: I was right. I was right. And I've reminded her of that once in a while.

So -- so as we move forward today and with the business plan discussion, we don't have a lot of projections about business model. We don't have a lot of projections about -- just yet about where -- where we're going to head. I think we're going to find out is -- with regard to the economy, the real estate market, unemployment rate, it has stopped sliding but we haven't made a lot of progress.

So everything we talked about last year gets moved down a year, and I think that's the direction you're -- you're going to hear. We'll have -- have a good time today, I think, talking about those issues.

And those are my comments, Mr. Chairman.

ACTING CHAIRPERSON CAREY: Great. Thank you.

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Item 2. Approval of the minutes of the January 20, 2011

and February 8, 2011 Board of Directors meetings

ACTING CHAIRPERSON CAREY: And I want to assure JoJo that the way we're going to keep ourselves moving is not by skipping every other item on the agenda, so we'll go back to item 2, which is approval of the minutes of January 20th and February 8th.

MS. PETERS: I move approval.

MR. HUNTER: Second.

ACTING CHAIRPERSON CAREY: We have a motion. Roll call, please.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Approve.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: The minutes have been approved.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 4. Closed session under Government Code section 11126(a)(1) to consider the evaluation of performance of a public employee

ACTING CHAIRPERSON CAREY: We're now going to go into closed session under Government Code section 11126(a)(1) to consider the evaluation of performance of a public employee.

(The Board met in closed session from 9:45 a.m. to 10:40 a.m.)

(Break taken from 10:40 a.m. to 10:48 a.m.)

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Item 5. Report of the Chairman of the Compensation Committee

ACTING CHAIRPERSON CAREY: We're going to shift the agenda just a little bit and -- I'm sorry. First -- well, no, we can't, can we? We need to wait for the chair of the Compensation Committee.

MR. HUGHES: There's -- just as an aside, there's no requirement that there be a report.

ACTING CHAIRPERSON CAREY: I think he wants to.

MR. HUGHES: Right. I just -- it's -- it's optional.

ACTING CHAIRPERSON CAREY: Maybe I could -- let's just -- we're still on. I think we've gotten ahold of him out in the hallway.

We are -- the Compensation Committee met, and we have a brief report from the chair of the Compensation Committee, Mr. Gunning.

MR. GUNNING: Thank you, Mr. Chairman. As you said, the Committee has met, and we performed an evaluation of the executive director, Steve Spears. No decisions were made on compensation. We think that's a reflection of the current economic times. It was strictly an evaluation.

ACTING CHAIRPERSON CAREY: Great. Thank you. And I think that we did talk about the need to revise the charter for the Compensation Committee, and the Committee will meet and make -- subsequently and make recommendations to the full Board about changes, including the name of the subcommittee and some of the responsibilities.

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Item 10. Update and discussion regarding the Agency's Business Plan

ACTING CHAIRPERSON CAREY: With that, now we'll move forward, and we're going to move the update on the -- on discussion of the Agency's business plan up to this point. Steve.

MR. SPEARS: Thank you, Mr. Chairman.

I've asked Bruce to help guide us through the assumptions part.

So this is in two sections -- three, really, if you count kind of the middle section about priorities. But I thought you should see what we're assuming going forward about the economy and our environment and then get back to our -- Heather, our survive, revive and thrive and where we are with that and the priorities. And I'll tell you the priorities are what we worked out last year. They haven't -- they haven't changed.

So assumptions, the economy is flat through 2012 and then a very modest recovery. Unemployment will lag that. We'll see some slight improvement. This is unless there are other developments, one way or the other. But not until the last quarter of the calendar year 2011, the first quarter of 2012. So basically we're not seeing improvement until then.

Interest rates, the general level will drift upwards through 2011. And mortgage rates generally increasing, but, again, that's going to depend on how quickly the Obama Administration moves ahead with the dates about what the new real estate market is going to look like.

If Fannie -- the general feeling is if Fannie and Freddie are withdrawn from this market and the risk is placed on financial institutions and the private sector for the conventional market, that you'll see some dramatic increases in mortgage rates. There was some debate at this annual conference about the relevance of the 30-year mortgage going forward and the amount of downpayment required, risk retention and all of those very big issues going forward.

Home sales, demand increasing in the third and fourth quarters of calendar year 2011 and into 2012. But on home prices -- and this is significant from our standpoint of our REO inventory, that we expect that statewide -- now, in some parts of the state, this will not be as bad as others, but that we would see another 5-to-10-percent decline in home prices during 2011. Very modest increases by towards the end of -- of this year.

Agency fund balances, I think we've seen this before, that we -- we have adequate funds for capital reserve requirements against loan losses for the business plan period. It's sufficient to meet expected real estate losses, credit adjustments, general obligations of the Agency.

But on the capital structure side, that depends on credit ratings, and it depends on our friends there and their rules, they have been known to change. It's a bit of a moving target. They could change the calculations, and we don't find out until after the fact what their capital adequacy calculations were and what our capital is. So we could have a hundred million dollars in their eyes and, say, great, Bob Deaner, you have, you know, a hundred million dollars to work with. The line has moved, and suddenly they think 75 million is all we have, and now we're over the line and risk a downgrade. So we have to be careful about that.

MR. GILBERTSON: Just one additional -- I'm sorry.

MR. HUDSON: Don't you have to make an assumption anyway?

MR. SPEARS: Our assumption is zero.

MR. HUDSON: Zero means no change.

MR. SPEARS: No, no -- no additional capital for risking, you know, an uninsured multifamily program or single-family program.

MR. GILBERTSON: And you'll see that later in the presentation, Paul.

Just one other thing I -- make sure the Board is aware, we are on credit watch again by both S&P and Moody's. We had a meeting with S&P yesterday in our offices before flying down. Fully expect that they will go to committee by the end of April and make a determination again on the credit ratings for the general obligation rating of the Agency as well as the large single-family bond indenture, the Home Mortgage Revenue Bond indenture.

And I would expect that Moody's would follow that with their rating committee action in May of this year.

So we're working hard providing them with information and waiting for them to do some analysis that we can react to one way or the other.

MR. SPEARS: On Agency liquidity, the third bullet, again, that's tied to credit ratings. They're -- they have certain rules about where you need to be liquidity-wise.

I will say this: At the present time, and of course this varies over time, we're at probably the highest amount of liquidity that we've been at in some time. After the Bay Area Housing Plan, bonds were sold, and the Bank of America line of credit was paid, and that was all settled. We were at, I believe, $207 million, and we've been in the hundred and 20 to 30 to 40 million dollar range. So it's improved and -- and that's a good thing. Again, definitely not out of the woods.

So the other issues are the MI fund. As we've been discussing, the MI fund will become insolvent sometime during the third quarter of 2011, calendar year 2011. And the reserve account to pay gap claims is somewhere in the same neighborhood.

So what happens after that, since there is no longer cash in the MI fund or cash in the gap reserve account, then those losses will go to the HMRB indenture, the single-family indenture. And that's where I take you back to the top bullet, Agency fund balances, that they're sufficient to meet expected real estate losses, credit adjustments and general obligations of the Agency. That includes the assumption of the last two bullets down at the bottom of the page.

MR. GILBERTSON: Just -- just one more thing on the real estate losses, a reminder to the Board. We have engaged Milliman and Associates again to do an update on the loss projection for the single-family portfolio. We were hoping that it might be available for today. It's not. But it will clearly be available for the May Board meeting. We'll give you a summary of some kind at that update.

MR. SPEARS: Stop and see if you have any questions, by the way.

So HAT funds, and, again, for the newer members, that's Housing Assistance Trust. That's sort of our general -- generally available unrestricted funds. In the past we have funded downpayment assistance, special lending to local governments, multifamily asset management programs. If Margaret has some problem-children properties, we can devote some of those funds.

And here again, with sort of a conservative approach, we're just not going to have internal funds to fund downpayment assistance and that special lending. And this is consistent with last year's business plan as well.

And finally, Bruce, I'll leave this last bullet to you to put in the crystal ball and to tell us how the bond market is going to perform.

MR. GILBERTSON: This is another way of just saying that, you know, tax-exempt municipal bond market for our purposes of realizing a competitive interest rate we can offer to a lender -- or to our borrowers is going to be challenged, potentially.

And I use some of the analyses of -- one of our bankers recently wrote a two-page kind of presentation on this. And he characterized it as a problem with supply and demand. Okay. There's a lot of demand for municipal bonds, but they want to be at the short end of the yield curve. Okay. So to finance loans, you have to have 30-year bonds as well, and so there's -- there's a challenge, and that's going to cause friction until some clarity on where the direction of the economy is going.

We know at the end of time to have both state and federal tax exemption on our securities, there's an advantage to the investor, but we've got to get beyond this crisis. And certainly it's very hard for us to predict when that's going to be.

In the meantime, we'll be monitoring that situation. You're going to hear later in the presentation as we roll through the NIBP where we have a -- a defined benefit in bond costs that we'll have to watch this even more closely to see if we have a rate that we can offer for single-family or multifamily loans.

MS. PETERS: And on the money we need to get out the door by the calendar end of this year, are we going to have any problem that you foresee -- I know you don't have a crystal ball -- in getting our private fund matched to get all that money out? Might there be a situation where we don't get it all out?

MR. GILBERTSON: Yeah, I think it's pretty clear that we won't use all of the NIBP.

MR. SPEARS: On the single-family side.

MR. GILBERTSON: Yeah, on the single family. The multifamily, we will fully utilize that.

Yeah, we received over a billion dollars for single family. Our projection is we'll probably use three to five hundred million of that. And it's not because we still can't find the private match, it's simply that we can't stir up enough loan volume to use it because of the interest rate that we're offering.

MS. PETERS: What's Treasury's position on possibly extending that now?

MR. SPEARS: There was a long conversation with executive directors in the room from all the states that are participating, which is almost everyone, on the New Issue Bond Program. And Treasury listened politely.

They -- there's been an issue. Sean Spear from the Treasurer's Office from CDLAC has been -- has a working group that I'm participating in on ideas to -- and we need more multifamily allocation, but we're not going to use up all our single family, is there a way to transfer that around? No. They did the original allocation and appropriation. For federal appropriation purposes you can't do that.

So they did say that if we could find a state that has the opposite situation, we might be able to trade. The only problem is every single state is in the same boat.

There are a few people. Pennsylvania has used up all their single-family New Issue Bond Program. They have a big FHA program. They're one of the only FHA lenders in the state, I believe. Is that correct? Some of the folks may be more familiar. But -- but they made no promises about extending.

So there are two issues. One is just extending the current program, allowing us to keep drawing and, you know, add it on, like they did last fall. The other is to go after money and just say this expired, and then you just put new money in place. Given the current situation in Washington, D.C., and the Congress, that's just not going to happen.

So I don't hold out a lot of hope for that. I think as we move along, we're going to talk about some non-bond-funded executions that are possible. But it's -- but I think that program will end.

We're going to continue to work with Treasury and this working group and other EDs in our national association to try to find some way, if we can. We're not giving up. It just -- the way the Treasury Department puts it is the folks on the second floor -- and I found out that those are the attorneys at Treasury -- are the ones that have to pass on this, and they have -- they have stretched the limits, I think, on legal authority.

So I wish I had better news, but we're not giving up. We're going to keep talking about it. We have a -- you know, we have the rest of 2011 to try to find a way.

Okay. Next --

MS. CARROLL: How much have we --

MR. GILBERTSON: Katie had a question.

MR. SPEARS: Sorry, Katie.

MS. CARROLL: How much have we used so far? You said an estimate of three to five hundred million that we --

MR. GILBERTSON: So we -- we did our first release for single family last December. It was a $60-million piece. We have plans to do a bond financing in May that is somewhere between 200 and 250 million. So we've accumulated quite a few reservations. So that will be a big piece.

And now our thoughts would be we probably go to the market again in the fall and then once right at the end of the year to use whatever else we think we could reasonably use.

MS. CARROLL: Thank you.

MR. SPEARS: To give you an idea, this morning Gary and I -- I'll always get a pipeline announcement every morning when we come in. So we have $280 million of loans that we've made -- loan reservations we've made so far.

In the past, we've had about a 40-percent fallout rate. We're still trying to figure out what the current fallout rate is. But, you know, if you -- if you work that and plus continued lending over the next few months I think this number is pretty reasonable.

Okay. The next slide. So here's our lending and portfolio assumptions. We're still using an MBA business model in this business plan. We're not going to invest in whole loans.

But here's an important thing: New issue -- new lending, this FHA program that we're doing, the 280 million in loan reservations we have have been subsidized with available excess yield that will be exhausted this month. Tim and Bruce have a really long explanation of this, but what it means is we've been able to offer a lower rate because of this. That's going to get exhausted, and we're going to have to drift higher.

And the truth of the matter is -- and, again, polling my colleagues in other HFA states are using NIBP, the NIBP rate just doesn't give you a rate that's much lower than market, if you just use that. So I think we're going to have to get that rate closer to the market, and that means probably our pipeline will dwindle a bit coming in.

And so I can see on the arrangement we have right now lending dwindling the rest of this fiscal year, ending very light the beginning of the new fiscal year in July, unless we have another execution, which we --

MR. GILBERTSON: Yeah, and markets are constantly changing.

MR. SPEARS: Right.

MR. GILBERTSON: The one thing, we've been ratcheting up the rates every week now by an eighth of a percent, and so we're going to -- I think rates went up again today. We're still getting -- like yesterday's demand, new reservations, a little over 4 million, if I remember right.

MR. SPEARS: Um-hmm.

MR. GILBERTSON: So we're still getting

reservations, but it's just a matter when we get to something closer to 4-75 as far as an interest rate, 4.75 percent, you know, how much demand there will be for that at that interest rate and that loan program.

MR. SPEARS: And when we get to the -- and I want to kind of move this because I think it's going to be an important discussion to talk about this non-bond-funded execution alternative that -- that's out there. Other states use it. There are some developments in the state that may make this more relevant at this point.

So we do have GO bond funds for downpayment. The CHDAP program is still out there, and there's plenty of funding for the next two fiscal years, the business plan period. But as we said, we're considering developing some business models that don't rely on bonds.

The multifamily lending side, we have committed all of the multifamily funds through conduit financing. And many of these projects are projects that were not going to go forward, but we were able to offer the better rate because of the New Issue Bond Program. And so they jumped over with their current lender in their current situation, and so they're getting conduit bond financing from us with a better rate and the -- either the project moves forward that wasn't moving forward before or it works better than it did before with financing because of the better rate.

So that's -- that's a good thing. The only thing is I wish we had more of this to work with. We just -- we just have run out of that.

MS. PETERS: Steve, that sounds like a really good story to tell. Is there any formal summary where you highlight programs that wouldn't have happened but for this or jobs created or other economic development things that we can use as a sort of success story to point to Treasury --

MR. SPEARS: Right. That's --

MS. PETERS: -- and encourage them to continue this program as --

MR. SPEARS: Right.

MS. PETERS: -- long as they can?

MR. SPEARS: That's actually what Treasury's asked for from all the states, and we're going to pull that information together as best we can. You always have the, you know, temporary construction job versus permanent jobs issue, but we're going to pull that together for Treasury because that's the story they want to be able to tell to their policymakers.

MS. PETERS: Are any of these supportive housing that would have permanent jobs associated with them?

MR. SPEARS: I believe they are. With a lot -- some of these conduit programs -- Bob, are they not -- supportive housing where you've got -- you've got --

MR. DEANER: Well, they were --

MR. SPEARS: -- caregivers and providers?

MR. DEANER: Yeah. Yeah. We had -- we had a number where we might have various levels of supportive housing. We may have even used some of our -- I know in two or three we used our MHSA dollars in there so we'd have -- so they'd be fully supportive housing.

MS. PETERS: Yeah, I think that --

MR. DEANER: The percentage of the units were --

MS. PETERS: -- we should definitely highlight --

MR. SPEARS: It's a good story.

(Court reporter interruption.)

MS. PETERS: We should highlight that.

MR. SPEARS: It's a good story to tell.

MS. CRESWELL: And I just wanted to ask and I can't remember if you talked about it before, but do you need to change anything in your assumptions if redevelopment goes away? And we won't know that for a while, but I don't know what portion of what you do is dependent on it. And should it at least -- if we know sooner or later, do you have to rethink or does it have to factor into this?

MR. SPEARS: At present, I think there are nine or ten projects that are in a pause mode because of RDA.

Now, going forward --

MS. CRESWELL: And I guess that's kind of more what I need, meaning --

MR. SPEARS: Right.

MS. CRESWELL: -- in terms of just, you know, if it's not there -- even if it doesn't affect, you know, the viability of your deals, which I would guess some of it would, is there still something that -- that the housing agency should be looking at moving forward if -- if there's no replacement of that in terms of how we finance affordable housing?

MR. SPEARS: Definitely, yes. And -- and we need to find out, you know --

MS. CRESWELL: Right.

MR. SPEARS: -- what's going to happen in the next few weeks and months.

MS. CRESWELL: Right.

MR. SPEARS: But --

MS. CRESWELL: But just at some point since it's not there, you know, I wonder if -- just how you factor it in as you move forward. You're right, everything is so uncertain, but.

MR. SPEARS: Well, but we have to deal with it because, you know --

MS. CRESWELL: Right.

MR. SPEARS: -- we have -- we've got to come back to the Board in May with a plan and assumptions and we -- we've done this before, come with plan A, plan B and various assumptions. That's probably what the May work product is going to look like.

MS. CRESWELL: Thank you.

ACTING CHAIRPERSON CAREY: And that's sort of the question. Would the loss of RDA precipitate a plan B?

MS. CRESWELL: Right.

ACTING CHAIRPERSON CAREY: Is it that significant?

(Court reporter interruption.)

MS. CRESWELL: I just said I don't -- I don't know. You would -- you all would know that better. But I even suggested even if it doesn't from a business plan perspective of how you operate, might it otherwise from a public policy perspective as your role as --

MR. SPEARS: We'll have to address that. It will impact us one way or the other. We're going to have to address that somehow. And I don't know the answer to the question today.

MS. CRESWELL: And I wasn't really looking for an answer, just other than that we should be thinking about it.

MR. SPEARS: Yes. Absolutely.

MS. CRESWELL: Okay.

MR. SPEARS: Then moving on, on the portfolio side of assumptions, we -- we do have the Keep Your Home California, and you're going to hear an update about that, that those programs are all up and running now. We've been utilizing those funds on a pilot basis for the loans that we service at CalHFA. That's about 35 to 40 percent of our loans.

What we're working -- and this is in Chuck's shop, is to bring on other servicers that service our loans, whether they're, you know -- whether they're utilizing Keep Your Home California for their own loans. That's a different issue. We want those servicers who are working for us to put this in place for our loans that they're servicing.

And then the call center, where we -- we've expanded hours into evening. We're now going to expand these hours into the weekend more. We've been open Saturday mornings. Now we're going to be open all weekend. We've been open till 7:00 in the evening. Now we're going to be open till 9:00. Whatever's permitted by law, we're going to -- we're going to open it up. It's been successful so far and -- this sort of pilot limited expansion and now we're just going to open it up completely.

Obviously we're going to keep working on loan modifications, that sort of thing.

And REO management, we are aggressively marketing our REO inventory. We've hired additional help in this area. We may have to hire another master real estate agent to work on these.

But the key item, though, is the last bullet, and that's Genworth. We have to maintain a really great working relationship with them, and so far we have, whereas when Moody's downgraded Genworth -- or I'm sorry. Moody's made a rating decision I believe it was last summer, and they commented positively on the fact that Genworth was rescinding coverage on about 20 percent of the claims that were coming in. And that was a good thing because that was saving Genworth money. And we have not seen that, and we want that to continue.

Chuck's done a very good job of maintaining this relationship, and we want it to continue on in the future.

Okay. So here's our -- this is the next slide here. Here's our chart. And I put the old chart up so that we can tell what we decided before.

But I think, you know, we have -- the beginning of 2012 is the end of the survive and the beginning of the revive mode. And I would extend that out to, you know, mid-2012 to the end of 2012. But I think that needs to be --

MS. CRESWELL: For the survive?

MR. SPEARS: For the survive.

Because if you go to revive, some of those things we're doing. You know, we're working on new business opportunities. We're working on improved business systems. A lot of those are in place.

We've made good investments there. But returning to profitability, we've made a lot of progress. Now, progress in the form of smaller losses, not profitability quite yet. But it may be another fiscal year before we can get to that point, and that's the middle of 2012 and maybe even into 2013.

MS. CARROLL: I know you've been talking at the federal level. What about the TCLP program? Are you getting any indications there as to whether they'll extend?

MR. SPEARS: Glad you brought that up. That expires, for the Board members' review, December 31,

2012. And, yes, there was a -- as soon as the New Issue Bond Program meeting was ended, they kicked all of the HFAs that are not participating in the temporary credit liquidity facility program, kicked those out, and we're just left with a few of us.

And, again, Treasury was very polite, and they took a lot of comments and -- but, no, no promises. We have the same issue of what can they do legally to extend the program.

Yes, we've having ongoing serious conversations with them. Treasury is talking directly to the rating agencies. I know that. They're having conversations about that, so --

MS. CARROLL: And we are the largest user, California?

MR. SPEARS: By far. By far. I think we have three and a half billion. I think Florida has a billion. They're the next largest.

So the problem that we have is that some states are in better shape. There's no question about it. And they're -- they're sending out RFPs for liquidity bids, and they're getting some bids back that are better than TCLP pricing, according to reports. I have not seen them myself, but -- and Treasury is a little concerned that these are being turned down, and they would like to see this continue on.

So my little speech with the group was the way this program is designed, that on December 31, 2012, there's a cliff, and you are just dropped into the market. And everybody assumed that the market would be ready for you to do that, that there would be a net to catch you, and it hasn't developed that way.

So what we either need to talk about is an extension of the program or a transition period where Treasury stays in the game and helps us get to that point. Because for states with size, like us, that need a lot of liquidity, we're not finding -- we're not -- we're not hearing from -- from folks. You could find it if you needed 200 or 300 million dollars.

MS. CARROLL: Right. And so those are the folks that Treasury is talking about that -- the ones who need 200 to 300 million that are getting liquidity bids back --

MR. SPEARS: Right.

MS. CARROLL: -- I take it, right? And so are they -- maybe I misunderstood. So are they concerned that we're not out there looking for liquidity, that --

MR. SPEARS: I don't think so. I -- I think they understand our situation --

MS. CARROLL: Okay. Good.

MR. SPEARS: -- very well, that -- we have one deputy assistant secretary that's sort of over this program. We also have an assistant secretary who is in charge of financial markets, and she's involved in the conversation as well. And I met with both -- both people separately in D.C., and they understand our situation. They understand that if we go out for everything on December 31, 2012, it, you know -- we're just not going to find that money. So -- so we need to find some way to transition.

MS. CARROLL: Okay.

MR. SPEARS: And from a policy standpoint, when they put those -- when they designed those programs -- now it would be the summer and fall of 2009, right --

MR. GILBERTSON: Correct.

MR. SPEARS: -- everybody assumed that three years was plenty of time. The markets would be healed magically. It just hasn't happened.

So you could just argue that, okay, look, those assumptions -- if those were your policy reasons for doing this program, they will still exist and you should move this out a year or two years to fit the current facts.

Okay. So -- I'm sorry.

MS. PETERS: Before you leave this slide, I'm reading all the bullets in the context of your comments of maybe moving the top box out through fiscal year '11/12 or '12/13? I'm not sure what you were saying. I don't think that necessarily needs to be done. I think in the middle purple box, I think if you took out return to profitability in the purple box -- and 'cause it is really in the bottom box, improving profitability structure.

In the revive stage, I don't know that return to profitability necessarily fits in the revive. I think you're -- we are thriving when you return to profitability. I think you're reviving when you're minimizing losses. So I think if you just change that bullet in the purple, the time lines pretty much stay where they are. You just redefine what that purple box says.

MR. SPEARS: I have a concern about the first bullet in the purple box because if the bond market doesn't fix itself and this non-bond execution we find isn't the best thing for us, then I think we could be doing not very much lending.

And if we're not doing very much lending, I don't know if we're reviving. Those two top bullets is -- that's what gives me the most concern. And, you know, things could turn around. That's the --

MS. PETERS: For better or for worse.

MS. CRESWELL: Do you -- and even if you do move the yellow over in terms of revive, does that mean you extend the period for which you're going to need to revive, just there's a longer overlap? So I'm assuming if -- if -- otherwise it's like at some point in 2014 is when you hope to have accomplished sort of all the revive things. But if you think that it's going to be slower, do you move them all?

MR. SPEARS: I would. That would be my opinion at this point.

So with that, I think you will be familiar with this slide because I borrowed it from last year's presentation in May. But this is what the Board discussed, and I believe, if I remember correctly, these are in order of priority.

So maintain credit ratings, obviously very important because of the liquidity implications. A downgrade triggers liquidity requirements. And although our liquidity has improved, not enough.

Loss mitigation, obviously very, very high on the scale. Keep Your Home California works into that. Extended hours works into that. Load modifications, short sales, all that taken together, it's just -- it's an enormous workload going forward, and we're staffing appropriately for that.

Renew lending activities, here again I want to get to this non-bond-funded execution as soon as possible, but I am worried that we're looking at conduit financing as a prime deliverer of multifamily lending activities and, you know, a not-quite-recovered bond market on the single-family side.

Then renewing and strengthening our partnerships, including I would say old and new partnerships because we're working with both Fannie Mae and Freddie Mac on some ideas on the multifamily side. And, again, with Genworth insurance, we have to maintain that relationship.

And then exploring new business model, that's what I'd like to get to fairly quickly.

So let me bring Bob and Margaret and Gary up. And --

MR. DEANER: I'll push the button.

MR. SPEARS: Thank you.

So on the single-family side, if the bond market is not working -- I want to get right to a discussion here -- one execution that we can do -- and again, other states do this. Mass Housing does this. Pennsylvania does this. Iowa does this. They simply sell whole loans, or you package whole loans into a security and sell the security out in the secondary market as -- in this case since we probably would be doing FHA loans, it would be a Ginnie Mae security, and it would just be marketed that way.

MR. GUNNING: Who buys that?

MR. SPEARS: I'll have -- I'll have Gary answer that. Who buys that Ginnie Mae security?

MR. BRAUNSTEIN: Yeah, it's just a -- it's sold in the secondary market for a premium. It's passed along as a security. It's insured by -- by FHA. So as a mortgage --

MR. GUNNING: Normal channels? Normal --

MR. BRAUNSTEIN: Yeah. Normal secondary capital --

MR. GUNNING: State investors?

MR. BRAUNSTEIN: -- marketplace, yeah.

MR. SPEARS: And we can do this two ways. We could develop this expertise in every group in-house that does this, or we can get a master servicer, as we have now, to do this for us.

MR. GUNNING: Insurance companies buy any of that paper? Are they --

MR. BRAUNSTEIN: No. I mean, the insurance is the, you know --

MR. GUNNING: Are they the purchasers?

MR. BRAUNSTEIN: Oh, no. No. No.

MR. HUDSON: What makes this a novel idea or an innovative --

MR. SPEARS: It's the second --

MR. HUDSON: -- idea?

MR. SPEARS: It's the second bullet. I just want to make sure everybody understands this idea that -- so what we do is we do -- we still need a pipeline line of credit to -- to fund these, to hold them until we get enough of a package together to form a security and --

MR. HUDSON: So you're just talking about selling new. You're not selling any of our portfolio. You're just talking about selling new --

MR. SPEARS: Right. This is new origination going forward.

MR. HUDSON: Why not -- why can't you sell your portfolio?

MR. SPEARS: We've done that. This -- the -- the novel thing for us is that by going forward, rather than issue bonds, we're going to just go forward and -- and use this secondary market alternative.

MR. HUDSON: Okay.

MR. SPEARS: But it's the second bullet that makes it unique. Only government entities can provide downpayment assistance on FHA loans. What other states have done, and the idea here, is that we charge an above market rate on the first. When you package those together with those higher rates, that's more attractive in the investment community, and you'll get a premium for that security. You then take that cash premium that we get and use that to fund downpayment assistance for the borrower, and that's the unique part about this.

Go ahead.

MR. BRAUNSTEIN: The additional value add to that is keep in mind that we also have CHDAP, which is our downpayment and closing cost program that we currently offer.

So when you use the source of the secondary market to now source another downpayment assistance program without using internal HAT funds, a borrower now has the opportunity to have government assistance downpayment and government assistance for the closing costs. FHA allows only government assistance programs for both of those, downpayment and closing costs.

So the private sector can't do what I've just described because they're not a government agency. So we're basically taking advantage of what, you know, the mortgage banking community does every day for their own lending program and tapping into that secondary market and sourcing those funds to provide either downpayment or closing cost assistance that only we as a government agency can do, allowed by FHA.

Our current FHA product follows all of FHA's current guidelines from a loan to value standpoint and to a combined multivalue standpoint.

MR. SPEARS: A couple of thoughts before we -- just so you know where FHA is headed. And again, Secretary Geitner testified about this yesterday. They want to -- they want FHA to get back to their roots. They're going to charge more for FHA loans. They've already increased premiums twice, and they're going to go up another quarter -- another 25 basis points very soon. And they're going to let the 729, 750 loan level drop back to, you know, a more traditional approach. I think it was 429, I think. So that's going to -- that's going to drop back.

And the other thing is in a white paper and was mentioned by Secretary Geitner yesterday is that this would be used for qualifying first-time homebuyers and those of, you know, low and moderate income. So what it's sounding like is that FHA will be the path for first-time homebuyers going forward.

The only problem we have in California is that, you know, as housing prices begin to go back up again, we will be in the same boat that we were in before, so whether they'll make some special allowance for high cost states. So we have that.

And then -- oh. And then last night Ms. Creswell and I were talking. We do have local government partners for downpayment assistance now. Some of that downpayment is funded with redevelopment funds, so over time you could see some of that going away, and this could be a timely downpayment assistance program that would replace some downpayment assistance you might see going away with the -- with the redevelopment funds getting redirected.

MR. BRAUNSTEIN: So one other point for the Board is that when we say at a slightly above FHA rate, the borrower is still qualifying for a higher rate, still through FHA's debt ratio, their housing expense and their total obligation. So this is for a borrower that has some limited cash or downpayment or limited cash for closing costs, still qualifying for an FHA rate, fully government insured, but has the opportunity to qualify because of their income at a slightly above-market rate for an FHA fund. So it's suitable for a borrower that can debt service the loan, but just is limited in cash or closing costs, which is basically the profile of our current low and moderate homeowners.

MS. PETERS: I just want to confirm my understanding of something, I think it's right. I know as a policy matter when we were looking at loan losses and particular products and issues we are having as a Board, we were talking about revisiting the issue of the wisdom of minimal downpayments in the marketplace. It's my understanding that that analysis doesn't necessarily apply to this product because whatever losses may occur would be FHA's problem not ours, now they're taking the risk.

MR. SPEARS: Well, and we would not only not have the whole loan, we would not have the security either. We'd sell that security out. And we would get -- it would change our profitability structure. We would get a fee.

Servicing's another issue. You could retain servicing and have that annuity. But we would not have these loans on our balance sheet in any form, either whole loan or security. It would be gone. And that would be -- that would be an important point going forward on our business model.

MS. PETERS: Yeah. And it's -- it's wonderful to see you being so creative in pushing the housing mission and minimizing risk and coming up with non-bond alternatives and all these other things as we move forward, and it's premature to discuss it now, but to discuss that profitability piece when the market shakes out and we know how much bond stuff we're doing and how much non-bond, you know, how our minimized profitability on the products where we're not taking a risk is going to affect the overall financial picture for the Agency long term would be helpful, but, you know, not today or next week or maybe even next year, so we know what -- what shakes out and what our portfolio is really going to look like. But when it does shake out, it would be helpful to revisit profitability.

MR. SPEARS: We've discussed this in senior staff meeting. It is a critical discussion to have going forward. If we are going to be a fee-base, both multifamily and single family, agency going forward, we need to do some restructuring.

MR. BRAUNSTEIN: This business model is not structured to replace our advantage when we have the bond market to our advantage. It's just an alternate way of sourcing capital and dealing with a market execution and still be able to have a solid FHA product.

And I could see down the road, you know, giving our financing department the option of executing either way, tax exempt or taxable or -- you know, because of the secondary market execution. Secondary market execution, you're selling the loan as a one-time gain on the sale so you're receiving income today. The annuity we'd gain on the bond side is certainly down the road, and we have further advantages by going that route, but I could see us being in a position to be able to have an alternate way to be able to use the best execution on how we handle or deliver our loan or source our loan and still have a product that's suitable for our borrower profile.

MS. PETERS: It's great to see that staff is so nimble.

MS. CRESWELL: Can I just ask a question on -- so you -- you guys previously had discussions about relooking at, you know, the downpayment that you should be requiring. And how does this relate to that? I assume --

MR. SPEARS: That's --

MS. CRESWELL: -- it's lower than what you were?

MR. SPEARS: -- that last bullet.

MS. CRESWELL: Yeah.

MR. SPEARS: We require 1 percent, minimum a thousand dollars. That would apply to this program as well. The --

MS. CRESWELL: Oh, so that -- so you -- so that's the same as what you've been --

MR. SPEARS: Right.

MS. CRESWELL: -- doing. Okay.

MR. SPEARS: The -- Gary sent me some statistics this morning. Hold on, I think I can do it from memory. But so far in that $280 million lending that we've done since last September, the average loan to value on the first is 98-something. Combined it's slightly over a hundred-percent LTV, including closing costs and everything and -- and downpayment assistance they use. And you put all that together, and it's just a tad over a hundred percent.

And we had that conversation last spring and -- and so this would continue that. The average FICO score is around 698.

MR. BRAUNSTEIN: 694.

MR. SPEARS: Or, I'm sorry, in the 690s. So these are qualified borrowers, and they qualify by FHA underwriting standards, you know, which have been -- they're doing things a little differently at FHA these days. And as you mentioned, they would be a hundred-percent FHA guaranteed.

And again, yesterday when the secretary was testifying, their goal is to make FHA more financially sound going forward. They're not there yet, but they have a goal, and that's why they're increasing the premiums.

MR. BRAUNSTEIN: One quick caveat on that, our FHA product has a minimum FICO score of 580. We've placed an overlay of a FICO score of 620, just to add a risk management component to that. The rest of our FHA product mirrors FHA's guidelines of requirements from a loan to value into a combined loan to value. We don't exceed either one of them. We -- our product is within FHA's guidelines because it's an insured product.

MS. CRESWELL: And which products do you do the higher FICO score?

MR. BRAUNSTEIN: On the FHA product.

MS. CRESWELL: On this? This is what --

MR. BRAUNSTEIN: Right.

We have an overlay of a FICO of 620 even though FHA as a government-insured product allows the FICO to be 580. Our minimum FICO is 620.

MR. SPEARS: An actual is in the 690s.

MR. BRAUNSTEIN: Yeah.

MS. CARROLL: So I just have to ask a question. I do agree that it's great to see creative ways of continuing to revive. Just a question of what -- what would the risks to the Agency be? There's rarely anything that's without risk.

MR. SPEARS: Well, I mean, you still have the originating lender. I mean if -- we may be in a situation where we have to put a loan back to someone. The only thing is if we don't own the product anymore, they are going to be --

MR. BRAUNSTEIN: Sold off in the secondary market. We've received our -- our cash. The loan, if we have a master servicer that's servicing the loan such as we do today with Bank of America, those wraps and warrants move off to our master servicer.

MS. CARROLL: Okay.

MR. SPEARS: All right. So what I think I'm hearing from the Board is that we should continue to explore this and develop it as a possibility. There are lots of questions that I still have from an operational standpoint. Should we have a master servicer? Should we develop this inside? Do we have the ability to, you know, attract staff into, you know, that area?

But the last bullet here, here's the thing: If we're not using tax-exempt bonds to do this, then there's allocation from CDLAC that's going unused. And we either say no thank you, we don't need it, give it to somebody else, or we can begin something that we've not done before, is a mortgage credit certificate program. We've talked about this before, use bond volume cap. So you -- instead of using it to issue bonds, we use it to issue the certificates. Home buyers use these certificates to purchase a home. And they get a maximum credit of $2,000.

The only -- well, the big difference is that in a bond-funded program, you issue bonds and somebody sells their house, you know, the funds come back to us, and we can churn those proceeds for ten years, over and over again. Once you issue a certificate, you're done. You've used up your allocation of bonds. And so you use it, and then it's gone.

Now, there are a lot of local MCC programs around the state. There is no statewide MCC program. And so, you know, you could either do this and compete with these other programs in local or you could just simply work in coordination with them and say wherever in the state there's not an MCC program, this is available. We just have to work out a lot of details on this, but it's something we haven't done in the past just because -- you know, we just haven't done it, so anyway.

MR. BRAUNSTEIN: One quick thing. The thinking behind that is as our rate creeps up to market rate, as I mentioned in the past, we're dealing with a network of approved lenders so we always need to look at what products we're offering as an investor versus them doing their products on their own lending programs. And it's either we have a rate advantage, an eligibility advantage, or a price of the product advantage.

So our thinking was as the rates get closer to the market rates, what additional value add can we provide to our borrowers and to our lenders to use our FHA product, for example, versus using their own? If we offer an MCC program available throughout the state, we can process MCCs as a standalone or with or behind our current FHA product as a value add to our lenders to use our FHA product, you know, if they have a single source, to be able to provide that borrower an MCC credit.

MR. SPEARS: Right. Just another thing that we have.

Okay. Unless there are other questions about single family, let's move quickly to the multifamily lending ideas that we've got for the Board.

And I think some of these we have talked about. We have talked about continuing MSHA. We still have quite a bit of -- of funding available to use for MHSA. There are discussions about going down the road is more funding going to be allocated into CalHFA. We're not sure how that is going to go.

We have New Issue Bond Program completely completed at this point, so a lot of the activity this year is going to be closing those deals, getting them done, moving them on and, back to Ms. Peters' point, collecting information about those and forwarding them on to Treasury to tell the story.

MR. DEANER: Yeah, and that number just got bumped up yesterday. I had a meeting. We have a $70 million New Issue Bond Program deal that's going down here in L.A. We met with them. We felt we were going to close it this fiscal year, and it's going to be pushed to next fiscal year, so that number is really 77 and a half million that will close in the next fiscal year with the New Issue Bond dollars with a little bit of private placement. And then you'll have the remaining 92 where we'll work on the restructure of our portfolio. So a little larger -- it will be a little larger in the next fiscal year.

MR. SPEARS: Right.

And the third bullet is going forward. As we said before, we don't have a lot of capital to work on an uninsured basis, either on the single-family side or the multifamily. So -- so moving forward, conduit issuing is for now our -- you know, our execution, where the loans are credit enhanced by either Fannie or Freddie, insured by FHA or financed with another lender, but all we do is issue bonds, act as a conduit issuer.

We have up-front fees. Again, it's back to Ms. Peters' point, you know. We're going to get a fee out of this, not an annuity, so we need to make sure that we are set up that way, you know, along that basis so --

MR. DEANER: We do get a little annuity. We'll get an eighth or a quarter point as an administrative issuer. If you do a billion dollars in volume, you can generate, you know a million dollars annuity going forward as you build that up.

MR. SPEARS: Right.

Let's go to the next slide, though, and talk about some other executions that we have talked about. We've been talking to both Freddie Mac and Fannie Mae, and I think we've reported to the Board on this before.

MR. DEANER: We have.

MR. SPEARS: And the FHA risk share is something that's standard. I mean it's -- it's in law. It's nothing -- nothing new. We -- in the past I think we have had an FHA risk share program on a 50-50 basis.

MR. DEANER: We do. It's currently the same. It's a 50-50 basis. It's just capital is still needed on that 50 percent.

MR. SPEARS: Right. And that would be the problem, is that, you know -- that they take 50 percent of the risk, we take 50 percent of the risk. We're just not in a position to do that. We're talking about upping their risk, which I think they can go to as much as 90 percent to them, 10 percent to us, I believe is --

MR. DEANER: 90-10, yeah. The question becomes do you need to go back to Washington, D.C., to HUD to get approval for that via versus the local two hubs, which is L.A. and San Francisco, if you're going that high, because you get close to what they call their map on our status, which is different than a risk share status. So that's something that we still need to clarify with them, if we go that high. They -- they -- you can go different levels: 50-50, 75-25, 90-10. It's just a question of what Bruce ultimately tells me and Steve, if we have capital, then we do back into what risk we can take.

MR. SPEARS: And again, that all gets back to rating agencies. When they do that cap test, how much do we have to work with, and we want to be very conservative about that.

Okay. So if there are not questions about the first three, the last bullet is -- is a bullet not on an ongoing basis, but for this year. We've been exploring the idea of taking some of the multifamily portfolio that we already have that's enhanced with our own general obligation credit and transferring that over and having a credit enhanced with triple-A rated GSA Fannie credit enhancement. If we can do that, it takes a lot of pressure off our GO, and the multifamily ventures are under our GO rating.

And it would require a lot of work in Margaret's shop and Bob's shop, but it's an idea that might provide us a little relief on the capital structure side. So it's something kind of in Bruce's shop. It's going to -- but the work is going to have to be done in the asset management area. And what it involves is going back and going through their underwriting, you know, as if they had done it to begin with.

Questions?

If not, let's go to the next slide, and this would be Margaret's area.

On -- I mean the biggest thing here is -- that's new that we hope -- and Margaret, if you want to talk about the PBCA process at this point. We talked about this for a very long time.

MS. ALVAREZ: HUD finally did release their invitation to bid for the PBCA, and we're in the process of buttoning up our bid package with our third-party contractor, who will be doing the actual work. And the bids have to be submitted to HUD by April 25th. And the selection takes place hopefully by July 1st. We'll know one way or the other.

MR. SPEARS: Former Board member Carol Galante spoke about this in the absolute briefest of terms you could possibly imagine at the meeting in Washington, D.C., and simply said that they would like to get decisions made towards the middle of the year so they could transition, and so by the end of the year, you know, we're all ready to go.

And in California, again, Margaret, how many properties are we talking about?

MS. ALVAREZ: It goes by contract. It's 1,357 contracts that would be administered in -- the fiscal year for HUD starts October 1st, so that's when the contract would start.

MR. SPEARS: Now, in Margaret's area again, we've said this over and over again, all the MHSA and -- and -- and financing that multifamily does transfers right to Margaret's workload. And then if we do get PBCA, that requires more asset management staff. It's a good feed every year. It's, you know, not as much as we originally thought, but it's still good feed. And we need to staff it up and do it properly because we'd like to turn that into a really good relationship with Washington, D.C., and have that become an annuity that we can count on on an ongoing basis.

Questions?

MR. GUNNING: Who are the contracts with? There are not that many multiple agencies that are doing this type of lending. Who are the contracts with? You said 1300 something.

MS. ALVAREZ: Well, they're -- they're HUD Housing Assistance Payment contracts, and right now they're administered by two different entities, one that has Northern California and one that has Southern California.

MR. GUNNING: Not by each county?

MS. ALVAREZ: Not by each -- well, there's all different kinds of --

MR. GUNNING: Yeah, that's --

MS. ALVAREZ: -- like, housing authorities administer HAP contracts. We administer our HAP contracts for our loans. But there's a pool that goes directly from HUD. That's the 1,357. And the whole goal was by Congress to try to standardize how things are done and reduce expenses to the federal government. So each state will have a PBCA, and one person administering all the contracts for the state.

MR. GUNNING: All right.

MS. ALVAREZ: As our loans come to an end, as many of them do over the next few years, if those owners get their housing assistance contracts extended, the HAP contract administer would move from CalHFA to the PBCA.

MR. SPEARS: Any other questions?

If not, there's one last slide. Here again, this is something that we've talked about before. We're still making investments in -- in our business systems. The loan origination system is scheduled to come up very quickly here.

The enterprise content management, again, is a -- we're trying to centralize, save money with computer systems, paper printers, the whole thing by -- by -- with -- with a standardized way of storing and searching documents. A lot of businesses are doing it this -- this way. And we're moving ahead. It's one thing, though, I've kind of put on the back burner with everything else.

But the one thing we've kind of moved to the front burner and long before the tragedy in Japan was when we moved to new locations in West Sac and the new location in Sacramento, we started putting things in place to update our business continuity plan, which is bringing our business back up, which comes first, where are we going to do business if we have a big emergency, emergency response and also our operational recovery, our IT systems, how we bring those back. Those pieces of that puzzle have moved around.

And then the other thing we found out we need to update what we've got in Culver City too and standardize it across the board. And it just -- with what's happened in Japan, it just makes it all the more important and brings it more to light.

So with that, that's our presentation.

MS. PETERS: Just a closing thought, great job. It's been wonderful to see the progression of the things you have told us about staff over the years I've sat on the Board. I know the Board has given direction, and the staff has clearly heard it and clearly been responsive on the issues of minimizing risk and also being creative in defining what our value as a housing agency is to the marketplace separate and apart from what we've already placed, so it's really encouraging to see that. Great work. Big difference from how it looked when we started this crisis.

And also, just as we put this together for May and as we move forward, the Board had been talking about focusing on our mission and really critically thinking about everything we do and how it fits into that mission and making sure that we're doing something that, you know, is appropriate for a government agency separate and apart from competing with the private sector. So

I'm really looking forward to seeing the focus come in on -- however things shake out on what our role is going to be in meeting that mission.

ACTING CHAIRPERSON CAREY: Any other comments?

MR. HUNTER: I recognize that, you know, the multifamily activity is a relatively small subset of the total portfolio of CalHFA and that CalHFA has -- has really largely been focused on homeownership. I guess going back to, you know, the concern about the disappearance of redevelopment authorities, that specifically puts at risk roughly a billion dollars a year of funding for affordable housing and particularly is about the only local source of multifamily housing with HCD's few remaining bond funds on hold and all the various challenges.

I just think it's -- you know, this goes a little bit back to some of what we were talking about in the performance review. It's a really critical time for CalHFA, HCD, and the Taxpayer Allocation Committee to really be thinking about what are the -- what resources can we bring to bear and try to continue the development of multifamily housing, which is the housing that's -- the only housing that's really affordable to very low income people.

And while CalHFA's mission continues to be homeownership, which is really kind of low to moderate income, there's a tremendous number of people in California who desperately need access to affordable housing. And I just think it's a very challenging time and it would be -- I don't know if it can be addressed in the business plan at this point because there's too much uncertainty about where -- what's going to be happening between now and May, but, you know, I would really appreciate the opportunity to kind of hear from all of the housing organizations together, sometime in the summer or fall, you know, all -- all you folks working together.

What -- now -- once we know what happens or doesn't happen in June, what are we going to do going forward? What resources do we have and how can we best leverage federal investments, and just, you know, what -- and then for this organization in particular, what will -- what tools, if any, can CalHFA bring to bear on that? It's very complex.

MR. GUNNING: It's funny because in the President's report, they just said not everyone is going to be a homeowner. We have to think about multifamily, and that could be the next growth area.

MS. CRESWELL: I just wanted to add I agree. I also just want to mention with regard to the pause and some of the things we are funding, we did ask CalHFA, CDLAC, and TCAC to meet with us to talk about a specific set of projects that were being addressed by the pause, but it might be an opportunity for us to at least start some conversations about moving forward with the new environment, and I think we're doing that meeting next week.

ACTING CHAIRPERSON CAREY: Great.

MR. HUNTER: That's great to hear. And, you know, I just think we kind of skipped over it real quickly, but one of the places where the redevelopment issue particularly impacts CalHFA's portfolio, every MHSA deal in the pipeline in San Diego has redevelopment money in it. Almost all of the L.A. deals, which is, you know -- MHSA is well over a hundred million dollars, the deals in L.A. Almost all of those have some form of redevelopment money in them.

So, you know, if that resource disappears, MHSA may continue to be able to produce units, but only if they dramatically change the underwriting and produce far fewer units.

MS. CRESWELL: And the impact even just on targeting as well is going to be a big one.

ACTING CHAIRPERSON CAREY: Other comments?

MR. SPEARS: One last comment and that is on this issue of homeownership and the percentage of homeownership, and I appreciate your comments, but there was an interesting exchange at the executive directors meeting when Assistant Secretary Raphael Bostic from HUD spoke. And there was a specific question from one of the EDs, what percentage of homeownership is acceptable to this administration, and he just couldn't answer the question. He really wanted to, but they just -- you know, given -- given the things that they're proposing, I think it's going to be lower, unless everything else changes. So it makes Mr. Hunter's comments more on target.

All right. So we have our comments. I took a lot of notes. And we'll be back in May with either an absolute clear crystal ball in one plan or a plan A, B, C, D and E and F. But we'll -- we'll have a good discussion in May.

ACTING CHAIRPERSON CAREY: I think we choose the hundred-percent accurate picture.

MS. PETERS: And a winning lottery ticket.

ACTING CHAIRPERSON CAREY: Really.

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Item 6. Discussion, recommendation and possible action regarding the amendment of Resolution 11-01 regarding the Agency's single family bond

indentures and related financial agreements (Resolution 11-04)

ACTING CHAIRPERSON CAREY: Okay. We will move on to item 6.

Bruce, you handling that?

MR. GILBERTSON: Yes.

ACTING CHAIRPERSON CAREY: These are the -- the next two items are the amendment to the resolutions adopted at the previous Board meeting.

MR. GILBERTSON: Thank you, Mr. Chairman, Members of the Board. I'll try to run through this fairly quickly.

Resolution 11-04 is an amendment to the single-family financing resolution adopted at the January meeting. That was Resolution No. 11-01. The -- the discussion at the January meeting centered around the changes that we had made to the financing resolution and the desire by the Board to have new bond indentures come back to the Board for approval prior to the Agency using those. Unfortunately, to make a simple amendment like that took a number of pages and -- because of the integration of the new indenture into that resolution.

But what you have in front of you is 11-04 that effectively is going to require that the Agency before using a new indenture for either debt refunding, debt restructuring purposes or to finance new lending initiatives in the future, that we would present the indenture to the Board for approval, take a vote on it before we ever go to market and use the resolution.

I think we've captured the intent of the Board. We looked at the minutes very carefully as we drafted this, working with bond counsel.

And with that, I'd just open it up and see if there's any questions regarding the amendment that is in front of you.

ACTING CHAIRPERSON CAREY: Any questions or -- Katie, can I ask, does it --

MS. CARROLL: I have no questions. Thank you very much.

ACTING CHAIRPERSON CAREY: I rely on your expertise personally.

With that, we have Resolution 11-04 in front of us.

MR. HUNTER: I'll move the resolution.

MS. PETERS: I'll second.

ACTING CHAIRPERSON CAREY: A motion and a second. Roll call, please.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Yes.

MR. HUNTER: Do we need to do public comment?

ACTING CHAIRPERSON CAREY: Oh, thank you.

MS. PETERS: Thank you.

ACTING CHAIRPERSON CAREY: This an opportunity for public comment. If there's anyone in the public who would like to address this particular issue, please indicate.

Seeing none, proceed with the roll call. Thank you.

MS. OJIMA: Thank you.

Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

(No audible response.)

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 11-04 has been approved.

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Item 7. Discussion, recommendation and possible action regarding the amendment of Resolution 11-02 regarding the Agency's multifamily bond indentures and related financial agreements (Resolution 11-05)

ACTING CHAIRPERSON CAREY: Okay. Item 7, Resolution 11-05.

Bruce.

MR. GILBERTSON: Okay. Thank you again, Mr. Chairman.

Resolution 11-05 is an amendment to the Resolution 11-02, which was the multifamily financing resolution approved by the Board in January. Again, the intent is the same, to restrict the use of new indentures to only those indentures previously approved by the Board, with -- with one fairly significant change, and that's -- that's related to the multifamily conduit financings and the bonds that are used for a conduit financing program. We discussed this at length at the last Board meeting.

So this resolution, the amended Resolution 11-02, would allow us to use new forms of indentures for conduit bond purposes. And again, conduit bonds do not present any additional risk to the Agency. It's simply a passthrough to the developer of multifamily rental housing apartments.

And so this would allow us to do that in that very unique situation. Other than that, if we were to do bonds of the Agency that were balance sheet type lending activities, we would come back to the Board. We'd vote on the form of indenture used for that purpose before we'd ever go to market for either new money or debt restructuring purposes.

Are there any questions regarding Resolution 11-05?

ACTING CHAIRPERSON CAREY: Any questions or concerns?

Seeing none, do we have a motion -- we will have public comment. Well, actually --

MS. PETERS: Do we have to have a motion first?

ACTING CHAIRPERSON CAREY: We need a motion.

MS. PETERS: I'll move.

MR. GUNNING: Second.

ACTING CHAIRPERSON CAREY: Moved and a second.

Okay. We have a motion on the floor. It's been moved and seconded. This is the point where we would accept public comment on this matter. Anyone care to speak to the Board, please indicate.

Seeing none, roll call.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 11-05 has been approved.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 8. Update and discussion regarding the status of the Keep Your Home California Program

ACTING CHAIRPERSON CAREY: Now move on to item 8, update discussion of the Keep Your Home California.

Di Richardson, welcome.

MS. RICHARDSON: Thank you. I have the slides on the projector but I -- do you need me to do that as well? You have them in your book.

ACTING CHAIRPERSON CAREY: Folks? What would you like, folks?

Sounds like the book's fine.

MS. RICHARDSON: Okay, good. Thanks.

I'm going to go through the beginning of this fairly quickly. I think, you know, that's a lot of information that you already know. I will tell you that Mr. Spears and I appeared before the Assembly Banking and Housing and Community Development Committees this last Monday to give them an update on the program. This is basically the same presentation that we gave them.

The first slide basically, again, just talks about the objectives of the program, which you're very well aware of. There are four programs, as you know, an unemployment program, a mortgage reinstatement assistance program, principal reduction program, and a transition assistance program. And there you have a sheet that has the current allocations among the various programs and the number of households that we expect to be able to assist.

There's just information in here on the general eligibility requirements, which I think we've talked about a million times, and the property eligibility requirements. And I would say if you haven't gone to our Web page for this program, I think it's pretty good. We've worked really hard on it. I think it's very intuitive and very user friendly, and a lot of times I get questions from people and walk them through that Web page, which is www.keepyourhomecalifornia.org. And I think we really have everything covered there.

Moving on to page 7, which talks about the general property exclusions, you know, we have a requirement that the homeowner cannot -- that they have to own the property. It has to be their primary residence. We currently also have as an overarching criteria that the loan was originated before January 1st, 2009, and that the homeowner had not taken any cash out.

The January 1, 2009 date, just so that you know where that came from, that mirrors the requirements of HAMP. And when we were creating these programs, we were trying to create a continuum of programs where a borrower could get unemployment assistance and get resolved there and get reinstatement assistance, if that's what they needed, and then move on to the PRP, which would be coupled with a modification, which was most likely HAMP. And that January 2009 date mirrors HAMP. So that's where that came from.

We now -- all the programs are up and running.

The unemployment program has been up and running since the beginning -- beginning of January, January 10th, I think, and the other three programs came out in February. We have -- so we've got a little bit of experience, and based on what we're seeing, we are going to make some changes to the unemployment program, the reinstatement program, and the transition assistance program.

Specifically, we're going to eliminate that January 1, 2009 date because we're finding that actually there were several borrowers that are applying for unemployment that refinanced after January 1, 2009, didn't take any cash out, but they're being restricted from this program because of that.

We're also going to eliminate the cash-out refinance provision for those three programs. The unemployment rate in California continues to be above 12 percent. You know, whether you're employed or not has very little to do with whether or not you took cash out, and quite frankly, we think that the people that are unemployed are in a different situation. For the reinstatement program, they've resolved their hardship, and they should be able to move on. And clearly on the transition assistance program, they just need help getting out.

We're going to retain those requirements for the time being for the principal reduction program. That one is obviously a little slower getting going. I think we don't have enough experience to say whether or not we think those same changes need to be made, but, you know, $50,000 is a lot of money for principal reduction, so maybe we'll continue to be a little bit more restrictive there.

The next couple of slides, I'm going to just really skip, just talk about the programs in a little bit more detail.

Servicer participation. You know, we have the five big servicers signed up for all -- for unemployment. That's one that everybody's very focused on making successful. Guild, which is one of CalHFA's big lenders, have signed on all four programs. We're actually starting to see a lot more activity from what we call internally the second tier, which are like the credit unions. I expect to have the Navy Federal Credit Union on very shortly. Midland is, you know -- sent me incomplete paperwork, but I will have that resolved very soon. And IBM, I think, is going to be coming on. So there's a page, page -- mine doesn't have a number, but tells you which programs the banks are participating in.

I will also tell you that we are -- I have probably three conference calls a day with different lenders, some of them several times a week, to get them onboard for the other programs. We're this close to getting Bank of America onto the principal reduction program. We've got one outstanding issue that we need to get resolved. I'm confident that we're going to get there. We tried to do it by the end of last week and just didn't quite make it. And then once we get them onboard for the principal reduction program, they'll come on for MRAP. It's just a matter of limited resources on both teams and concentrating on one step at a time.

There is a page that talked about the servicers that are actively in the onboarding stage with us.

Our centralized processing center is working very well. It's very impressive. Any of you that are going to be in the Riverside area, I would love to set up a time for you to visit them, see them. You could sit in on borrower calls, you know, actually hear the kinds of calls that are coming in.

We had a visit from the Department of Treasury earlier this month. I have no sense of time, I'm the first to admit. But they sent a team out to do a pre-audit sort of a meeting with us, and they were very impressed, had nothing but great things to say about what -- what they saw.

And they did sit in on calls in each stage. They listened to calls coming in at the triage. They listened to calls in the counseling session. And then they sat with our processors that were finishing the eligibility. So it was a very complete visit for them.

And it's quite, quite interesting. I would really, if you're going to be down there, ask you to give me a call and let me set that up for you.

The -- the recent developments, obviously, the changes that we're proposing to make to those three programs, we plan to roll those out. My -- my goal is April 4th. We're in the process of changing all of our systems internally and working on new scripts, and we'll be training staff on that.

And I also have to get new term sheets approved by Treasury because, remember, all this is a contract. I have discussed these changes with Treasury, and they are fine with them. It's just the mechanics of getting them approved and getting them off to the lawyer and getting the new contract signed. But I'm not really anticipating a -- a problem there.

We do have three candidates for the Innovation Fund that we've talked about a little bit before. I'll tell you who they are. Two of them are -- one of them's really close to being approved. One's a little closer, and one we have a little bit more work left with. The first one is Community Housing Works in San Diego. They proposed a program to help eliminate seconds on mortgages that are not qualified for the HAMP 2MP program. So this is a program that they'll work with smaller community banks. Great program. We're really very excited about it, and I think that one's a done deal.

The second program, which is sort of the next closest, is with the L.A. Housing Department, and they're partnering with One LA. You'll remember One LA came and spoke to us a couple of times. And Treasury has some outstanding questions about that program that we're trying to get resolved.

The third program would be a partnership with Sacramento NeighborWorks. It's a rent-to-own model. We received several applications for rent-to-own models, and we thought this one was the easiest, best, you know, least complicated. I'll tell you that when we were originally talking about these programs with Treasury, they were really -- they said, "Have you thought about -- have you looked at any rent-to-own programs? Those are really intriguing."

So then they came back and kind of -- what's the nicest way to say it -- weren't as enthusiastic once we really submitted it. But we at CalHFA and the CalHFA MAC team are very committed to that program. We think it's a great program, and we're going to continue to fight for it.

So hopefully we'll get -- I think the first two might get up and running first, but our goal is to get those up and running and under contract pretty soon so we can see how they're working.

There is a slide, I believe it's No. 18. This is a slide that shows you the number of homeowner action plans that have been completed by program from September through March 8th. Remember -- so this would include the CalHFA pilot program and our current -- our current participants.

And the homeowner action plan means that they've gone through triage and they've completed counseling. At the end of counseling they have a plan, and we're waiting for their paperwork to come in, everything, you know, that they need to give us to verify the things that they've told us. And then, you know, we can fund it. And so you can see the loans that have been funded to date and the number of loans.

The next slide I thought was important to share with you just because this demonstrates -- this is after the borrower's gotten their homeowner action plan, so it's after counseling. And this is the dropout rate, the ineligibility, so we're still not able to really verify some of the information that they gave us.

They may -- you know, some people don't really know what their income, their real income, is. A lot of people -- I think we actually have people that try to game us a little bit. They'll call once, and they'll be told that they're ineligible because they own a second property, and so they'll call back and say, "No, I don't own another property." We run credit checks, and we run CoreLogic reports, and it's amazing how often that stuff pops up, and they didn't think we'd find out. You know, this just shows you that once we get to the verification stage, there still is a dropout.

ACTING CHAIRPERSON CAREY: Di, this is the ineligibility of people who called CalHFA directly?

MS. RICHARDSON: Mostly, because -- yeah, or they could have come in through a counselor.

ACTING CHAIRPERSON CAREY: But it doesn't -- but it doesn't count the people who were screened out by the counseling agencies.

MS. RICHARDSON: Correct. It does not count the people that were screened out by the counseling agencies or that failed at triage or that failed at counseling.

I mean, you know, they could drop -- they could be caught any -- at any of those places. This is where they've finished counseling, and we think they're perfect candidates, and then something doesn't quite fit.

The next slide, which shows the top ten counties, this just sort of shows you -- these are calls -- these are the calls that have passed triage, so they could be at any stage. They could be in counseling or in eligibility or funded, but you could see that most of the calls have been from the Los Angeles area. And so we're -- you know, we're tracking that to find out if there are other things we need to do.

I will tell you that we have met with our advertising agency. We -- we've actually got a fabulous amount of free press on this to date, and I could pass this around if you want to look at it. This just shows every story. Steve and I have lost our voice a couple of times talking about this program. But despite all of the free publicity, there's still a lot of people that don't know about the program.

We're averaging about four or five hundred calls a day, and we thought we would get more. So we're working with an advertising agency to come up with a strategic campaign to help us get the word out, and we hope to have that in place and going in May.

MS. CRESWELL: So do you -- would you operate like in Fresno and some of the other Central Valley and you just aren't getting any?

MS. RICHARDSON: Fresno was 12th, I happen to know.

MS. CRESWELL: Okay.

MS. RICHARDSON: Yeah. I -- and -- I can show you. I have a list of all -- we're statewide.

MS. CRESWELL: Okay.

MS. RICHARDSON: It's just that --

MS. CRESWELL: Is that in --

MS. RICHARDSON: -- those are the top ten.

MS. CRESWELL: I mean, that would be pretty striking in Stanislaus and --

MS. RICHARDSON: And I think that -- I mean I think that maybe -- after I ran this report, we've done a couple of radio interviews.

MS. CRESWELL: And have you worked like with the League of Cities or CSAC to get them through some of their local, you know --

MS. RICHARDSON: I've talked to them very briefly and asked for meetings, but we haven't done that yet.

MS. CRESWELL: I would just think that would be a really good way to get out information, especially -- and there's like the rural counties and things --

MS. RICHARDSON: Right. I agree.

MS. CRESWELL: -- and groups like that that would be good to get the word out to --

MS. RICHARDSON: And we do -- we are trying to get everybody and their mother to put our link on their Web page, so if any of you have a Web page and haven't done that.

ACTING CHAIRPERSON CAREY: And, Di, this is the calls into the CalHFA number? Do you have --

MS. RICHARDSON: It's the 800 number, right.

ACTING CHAIRPERSON CAREY: Do you have statistics on -- on what's going into the 37 counseling organizations?

MS. RICHARDSON: You know what I do, Peter -- Mr. Carey, sorry -- I -- I know the counseling -- the local counseling agencies have been up and running for about a month now, and it's been a little slower than we expected. I think the changing of the criteria will make a big difference there. I also think -- I mean, I shouldn't have been surprised that it was a little slow, based on what we learned from the NFMC. You know, there is an adjustment period.

We were finding that a lot of -- you know, they -- they have direct access to the Cal MAC system through a portal. And we were getting a lot of incomplete information. They weren't completing the screens, and we were having to go back and ask them to do it -- you know, complete them and do them again.

So we've got a call with them on the 22nd, and we'll be talking about the changes that are coming up. And, you know, these are monthly calls that we'll have with them, you know, what's working for them, what we need them to do differently, sort of do some troubleshooting. So I think that those numbers will start picking up.

ACTING CHAIRPERSON CAREY: Great.

Yes.

MR. GUNNING: A couple thoughts. If you do Google alerts, I've been getting a ton of these things, so it seems like, you're right, press-wise it's every day something comes in from some local agency. So compliments on --

MS. RICHARDSON: Thank you. Our marketing staff, I think, has been doing a really great job.

MR. GUNNING: And then secondly, the Mortgage Assistance Corporation, what entity is that? Is this a new entity we created?

MS. RICHARDSON: Yeah, that's our nonprofit entity that we had to create to accept the funds and disburse the funds.

MR. GUNNING: Is this the JPA?

MS. RICHARDSON: It's not -- it's not a JPA. It's a 501(c)(3) nonprofit entity that was specifically created for the purpose of administering these funds.

MR. GUNNING: And then on the counties, you always hear how San Joaquin, Central Valley, is hardest hit, the Stockton Tracy area. Why would they be No. 10? Just sheer numbers?

MS. RICHARDSON: Just where the calls are coming from. You know, we did -- I'm trying to look for my list now. I know I have it here. I think it's been a little bit about where the press, the -- I think that the press in Los Angeles has been more aggressive. You know, we've had great write-ups in the L.A. Times. We've appeared on a couple of newscasts down in the L.A. area. We've been in several Bay Area papers. There's Kathleen Pendering, I think her name is, with the San Francisco Chronicle that's written on it a few times. Steve, Mr. Spears, has sent out letters to editorial boards across the state. You know, we've sent letters to every legislator with sample constituent letters, hoping that they'll help us get the word out. The office -- I believe it's called the Speaker's Office of

Majority Services is putting together a news blast for all of their members to send out to constituents.

So, you know, we're trying to hit it every way we can. Anytime we get an invitation from a group, somebody's there. We've done a couple of -- you know, Chase actually does their own event where they send notices out to their borrowers, and their borrowers come into their centers and see if they qualify for loan modification, and we have counselors attend those events. We try to utilize not only counselors from the processing center, but we contact the local counseling groups to find out if they're willing to participate and send people.

MS. CRESWELL: So if we have ideas of folks that might -- that you may not have thought of, can we just send them to you, Di?

MS. RICHARDSON: Yes, please. Please.

MR. GUNNING: And then finally, Di, the Legislature, are they still concerned with speed? Have you quieted that down now? I know I was getting a couple inquiries, when the program was going to be running.

MS. RICHARDSON: The questions, I think, that came up on Monday were from -- Mr. Fuentes expressed concern that the Legislature really didn't have a hand in creating these programs, and, you know, he was a little concerned about that, but, you know, it sort of is what it is. And he's -- he's known about them, clearly. He participated in the press conference with One LA last spring, so it's not been a secret that this has been going on.

And I think that most of the -- the other questions had a lot to do with marketing and how are you getting the word out, how are we going to let people know? I will tell you that I don't know that they've actually ever come to speak to this Board, but there is a group, formerly Maguhi (phonetic) and now it's the National Asian American Association or something like that. I can't quite remember the name. They have been very vocal in going to Congress, including Congressman Filner and Congressman Issa, and arguing that we were wasting $800 million by having that money set aside for principal reduction and that those funds would be better used to fund local counseling programs.

And we have said repeatedly that -- and I've shared with them the language from Treasury that says that these -- counseling is not an authorized use of these funds. HUD provides money for counseling. You know, NFMC's funds are available for counseling. And that is not an appropriate use unless it was specifically incidental to a transaction, which we've included funds.

But I'm continuing to get letters. We're continuing to get letters from that group and those two Congressmen specifically.

MR. SPEARS: There were questions, Mr. Gunning, from Chairman Eng about how fast we think the money would be going out the door, did we have a time line. And we did originally with Treasury on some of it. He wanted us to put together -- and we promised to get it to him -- a model based on current servicer performance, increasing our anticipated servicer performance, and the way the program is designed today. So we had promised to give that to him as soon as we can get it.

ACTING CHAIRPERSON CAREY: Ms. Peters.

MS. PETERS: A couple quick questions. On this grid of the allocation of the different programs --

MS. RICHARDSON: Um-hmm.

MS. PETERS: -- is that flexible at our discretion, or is that something if we decided one program is working great and one is not, that's something we can change, or do we need Treasury to sign off?

MS. RICHARDSON: We need Treasury to approve it. They actually approved the budget. So anytime we make a change, they have to approve it. But they're very open to that.

MS. PETERS: At this early stage do you have any comments on what needs to be approved, or is it too soon?

MS. RICHARDSON: No, I think it's a little soon. Obviously when we get the three Innovative Fund programs, that will require a change to those allocations. But I -- I think -- I think it's a little soon right now to change. I don't think -- you know, it's -- we're a month in. Nothing's so -- so great or so hideous that we're ready to recommend a change.

MS. PETERS: And then my last question was on the Innovation Fund, the One LA program that we all heard here did not seem apparently to be viable and yet it's still in the Innovation Fund. Is there a different program they're working on there?

MS. RICHARDSON: Well, they've made some changes to it. They don't always tell you about the changes that they make. Their biggest -- sort of their biggest obstacle right now from -- that I would think or I would characterize it is, you know, Treasury read it and said, "If this looks exactly like HAMP, why would somebody participate in your program rather than in HAMP," which is a question we've asked several times. And they need to get -- give us a good answer to that.

But, you know, the way we anticipate is -- you know, we've said all along if they've got a great program and they think it works better than ours, we're willing to give them a chance, but they will have a limited amount of time to prove that it's going to work. I do not believe they have done any modifications yet with their current funding, but, you know, if they could do it successfully, then more power to them.

MS. PETERS: And I presume there hasn't been any word of anyone in the lending community beyond their initial one million dollar pilot stepping up to participate or has there?

MS. RICHARDSON: I don't want to speak for them, but I know that the last I heard, they were having intense discussions with Chase and one other lender that I can't think of right now.

MS. PETERS: Could you keep us updated as you get --

MS. RICHARDSON: Yes.

MS. PETERS: -- more information?

ACTING CHAIRPERSON CAREY: Speaking of lenders, Di, can you talk a little bit about the partial payment problem?

MS. RICHARDSON: The partial payment problem.

ACTING CHAIRPERSON CAREY: Because it's one of those that sort of defies reason, and I've had people from outside --

MS. RICHARDSON: Well, and they're --

ACTING CHAIRPERSON CAREY: -- roll their eyes and --

MS. RICHARDSON: Right. Under our unemployment program, we will pay up to $3,000 a month. No, I'm not reading that right. I guess I could look at -- up to $3,000 a month per house.

And when, you know, the program was created, it was our belief that -- you know, this is a program for low and moderate income homebuyers, that $3,000 a month was a generous contribution from us and that the payment -- you know, although the unpaid balance, principal balance, can't exceed 729, 750, it's really going to be governed by the income weekly.

So we have -- we met back in Washington last September, I believe, with the five major servicers and the Department of Treasury, and we talked about this issue. And they wanted full payment. They wanted the whole payment. And the agreement among those five was that they would only accept full payment. And Fannie and Freddie also said that.

We made it very clear at that time that we are going to pay up to $3,000 and they would have the choice, then, if they wanted to -- you know, there are things that they could do. They could accept partial payment. They could forebear the difference. I'm not saying it's easy things for them to do. They're -- I'm sure they're, you know, accounting nightmares.

But we have had some lenders that have signed up that have agreed to take partial payment, so I know it's possible. None of the big five are taking a partial payment.

And they have -- we -- we are the only state, I will tell you, that has a monthly cap, but we are the only state that has home prices like we have. And their -- the preference of the big five would be for us not to have any monthly payment cap. If we wanted to keep our $18,000 program cap, keep that, but just let them use it as they wish.

Our -- again, our goal when we created the program and we did our research, unemployment, typical unemployment, in California is eight months. So we created our program. If we could get you through six months and if the servicers could, you know, add on an additional three to six months on the back end, that should get you through your unemployment period.

You know, allowing somebody to have four or five thousand dollar payments or only getting help for four months, I think that, you know -- we were asked quite often, "Aren't you just kicking the can down the road?" And our thought at this time is that if we do that, we are kicking the can down road because what happens at the end of three or four months?

We are continuing to talk to them about that, but at this -- at this point -- I mean we -- we've talked about, you know, just having the program cap. We've talked about increasing the $3,000 to 35. Whatever we increase it to, it's a cap, and somebody is going to complain that they were left out.

ACTING CHAIRPERSON CAREY: I mean, the difficulty is not the $5,000 but where it's -- where the payment is 3,030, and -- and the bank won't take the 3,000.

MS. RICHARDSON: Um-hmm.

ACTING CHAIRPERSON CAREY: But -- but we used to say in Africa, "When the elephants fight, it's the grass that suffers," and somehow or another you've got homeowners caught in that --

MS. RICHARDSON: That's correct.

ACTING CHAIRPERSON CAREY: -- that crazy bind there, and I'd sure like to see what options there are for that. And it seems incredibly shortsighted for the banks, the servicers, to be unable or unwilling to --

MS. RICHARDSON: They would like us to collect the payment from the borrower and put it together with our payment and send in a single payment.

MR. SPEARS: I'm sure they would.

MS. RICHARDSON: Right. And we -- you know, our just -- our -- our central processing center is set up to disburse funds. They are in no way set up to collect funds. That would be a whole nother project, which I might have to kill myself if we have to do that.

And there are some -- some other states that have contracted with U.S. Bank to do it. And I've -- you know, I've asked staff to take a look at that and find out what it would cost. You know, California is a huge state. It could cost us a lot, and then we'd have to pay the benefit of the cost versus the benefit..

ACTING CHAIRPERSON CAREY: Right.

MS. PETERS: Do we have any statistics on whether it's a thirty-dollar miss or a thousand-dollar miss?

MS. RICHARDSON: Yeah, I've actually -- I don't have it with me, but I have asked the central processing center to give me that data and so I -- they're getting it. I don't have it with me.

MS. PETERS: It would seem that given the fact that they're income-limited in the first place to get into the program, that it seems to be a sweet spot where there's always going to be someone who's got a payment that they're going to complain about.

MS. RICHARDSON: Um-hmm.

MS. PETERS: But there would seem to be a sweet spot and if we need to bump it up to 35 or whatever it is.

MS. RICHARDSON: Right. And we're looking at that.

ACTING CHAIRPERSON CAREY: It's in the, certainly, public eye. It just looks like people are caught between two bureaucracies.

MS. RICHARDSON: Right. Right. And I will tell you that I know of at least one instance where the servicer went back and there was forced placed insurance, and they removed that, and that brought the payment under $3,000, and it's all good. But they don't want to do that for -- you know, they don't want to hand touch each of these.

MS. CRESWELL: What's the time frame for sort of relooking at this?

MS. RICHARDSON: Well, we're looking at it every day. You know, I mean I don't know when we'll have a recommendation. I -- I think that we'll want to get --

because, again, we're going to have to go back to Treasury and have our term sheets amended again, so it won't be in the next couple of weeks. I think what we'll want to do is take a look at what these new changes have done to volume and, you know, where that gets us, but we're continuing to look at it and talk about it --

MS. CRESWELL: But --

MS. RICHARDSON: -- virtually every day.

MS. CRESWELL: -- relative to this issue, if you're looking at it with the idea that there may be changes that you can make, it just seems like timeliness in that would be helpful. Yes, in two months we'll do something or, no, we'll hear about it whenever. So I recommend you figure out a time that you can kind of come up with a recommendation back to the Board.

MS. RICHARDSON: Well --

MS. PETERS: Or fix it before --

MS. RICHARDSON: Right. I mean the recommendations don't have to come back to this Board, but, you know, I would also say -- and I mean it's not that I'm completely set in cement, but, you know, we're pretty much spoon feeding these banks this money. And it seems to me that they could sit up a little bit and open their mouths.

ACTING CHAIRPERSON CAREY: There is no one in their right mind --

MS. RICHARDSON: I'm going to get in trouble for that, sorry.

ACTING CHAIRPERSON CAREY: Well, but there's no one in this room who owed a payment of $3500 who wouldn't be happy getting -- happier getting the 3,000 and deferring the 500, but it's a system and it just defies -- for the public, the average person, it defies logic.

MS. CRESWELL: That's right.

ACTING CHAIRPERSON CAREY: But we look like the bureaucrats.

MS. CRESWELL: That's right. And it's -- and it's the potential borrowers are -- you know, who are going to get the resources who are hurt while we're waiting for the banks to step up or whatever. So it just seems like if, you know, all right, either we're not going to make any changes 'cause this is the way we think it should go and sorry that a few of you could get caught on that gap, but it seems like it's enough of an issue that we ought to try to bring some sort of resolution.

MS. RICHARDSON: Well, when you say it's enough of an issue, I don't -- well, again, until I actually see the numbers of the people that are being -- you know, I know there are a couple of people that were very vocal about it, but I don't -- I don't yet know what that world looks like.

ACTING CHAIRPERSON CAREY: That would be good to know.

MS. CRESWELL: And the folks in the ineligibility, wouldn't some of these folks would be that? That's other issues?

MS. RICHARDSON: No, they're -- that would -- the ones that are -- that were ineligible, I mean I'm not sure I'm going to answer your question correctly. The ones that have been determined to be ineligible, the things that we're proposing to change, we're going to go back in our system and look for those people.

MS. CRESWELL: Okay.

MS. RICHARDSON: We've captured all their information so we can recontact them and say, "You know what? You might now qualify." But people that didn't qualify because their payment exceeded $3,000, they're not -- they don't qualify today.

MS. CRESWELL: Right. I was just wondering if -- if you knew of the folks -- if this statistic, just to get, again, sort of an order of magnitude --

MS. RICHARDSON: Right.

MS. CRESWELL: -- included some who were ineligible because their payment exceeded the --

MS. RICHARDSON: Right.

MS. PETERS: I may be asking the same question in a different way. The program is only designed to low and moderate income people, right?

MS. RICHARDSON: Right.

MS. PETERS: And what is the upper end of that scale, as far as you know, roughly?

MS. RICHARDSON: Well, it would probably -- I always carry that with me, and I don't have it today. It's probably -- in the Bay Area it's probably about 115, 120.

MS. PETERS: Okay. So if we go to 120, can someone making 120 afford a payment more than $3,000?

ACTING CHAIRPERSON CAREY: No.

MS. PETERS: Then maybe it's not a partial payment question, it's really a program issue, that they shouldn't be in the unemployment insurance program, they should be in the graceful exit program.

MR. SPEARS: Well, although if they haven't had their loan modified yet, it could be someone who had a teaser rate that, you know, the rate jumped up and now their payment's a big payment, and they're unemployed so they can't get in to see -- talk to anyone about a loan, so you're helping to bridge them with this huge payment that they can't afford.

ACTING CHAIRPERSON CAREY: But they -- and Heather's point I think is well-taken that -- that we need to keep in mind what the goal is and what the context of it is. And if there's reasons for the program design that are within sort of mission-based and social parameters, that's a little bit more defensible than -- in the public eye, than the, well, the lenders need to budge or, you know, we have these rules. It's just in that context of what's appropriate use of the money, I think, is one of the issues.

MS. PETERS: I was just surprised that 3,000 wasn't enough to service --

ACTING CHAIRPERSON CAREY: Yes.

MS. PETERS: -- the people we're trying to service.

ACTING CHAIRPERSON CAREY: Absolutely.

MS. PETERS: And I suspect that once we look into the data, it may bear that out.

ACTING CHAIRPERSON CAREY: Yes.

MR. HUNTER: I would just note that actually in the Bay Area, 3,000 a month is our target population. 30 percent of 115,000 is more than 3,000 a month. But in -- certainly in San Joaquin County, that's not -- the median income is nowhere near 115,000.

MS. RICHARDSON: Right. And if any changes that -- if we change -- if we raise the in- -- if we raise the monthly cap, that's fewer borrowers we'll be able to serve with that program.

(Court reporter interruption.)

ACTING CHAIRPERSON CAREY: Okay. Are there any comments or questions about the Keep Your Home California?

Thank you. It's a massive undertaking, and I know that Di really -- and Linn -- have gone all out to make it work.

MS. RICHARDSON: Thank you.

MS. CRESWELL: Congratulations.

MS. PETERS: It's an amazing rollout. I -- I love to hear that you guys have the call center up and it's being audited and they love what they see, and it makes me wonder why can't BofA or Chase or any of these other banks do what you do, answer the phone and be responsible?

MR. SPEARS: I would just say that I think currently this is the biggest program up statewide in the nation, Hardest Hit Program. I think -- I'm not sure that there are more than one or two other states that are up and running statewide.

ACTING CHAIRPERSON CAREY: Really.

MR. SPEARS: Michigan started to, crashed all their state systems, came back, but what we were told they -- the big banks would not come along, shall we say, so they decided to go with neighborhood banks. And then when the big banks started talking to them and they started getting to the place where we are now, they had to go back, stop the program, start all over again.

So, Di's done a fabulous job. The whole team has done a fabulous job. And we are, you know, one of the only states that's up and running statewide with -- all the data that you see is coming out of the system that was designed. It's great.

MS. CRESWELL: Can I just ask one other question on that in terms of -- so don't a lot of the big banks, and I don't know the answer, still have Community Investment Act responsibilities and shouldn't we be able to get -- use some of that to sort of leverage their participation, or has that been thoroughly --

MR. GUNNING: I guess 'cause it's all voluntary and they just take --

MS. CRESWELL: So you can still -- I mean I remember years ago when I was doing work in that area that -- that you still used it as a -- because you can write -- you know, they -- they have to collect comments on their participation, and so that may be where, again, community activists kind of organizations can help. Because, you're right, it's a voluntary thing, but if the bank can't otherwise show what they're doing to support low and moderate income households and communities, that could be a ding against them in their Community Reinvestment Act obligations.

MS. RICHARDSON: I -- I will say I don't -- I will look into that. I don't know exactly how this works because these are not new loans that they're making in these areas, but they're being asked to modify --

MS. CRESWELL: But isn't that again -- and it may not be an appropriate role for -- for the state agency, but it would be something that I would -- I know you had a number of advocacy groups who were interested in this. It would be an appropriate role for them to use that as -- which can be a very powerful tool.

MR. GUNNING: At least they have a collection of letters there about the unwillingness --

MS. CRESWELL: Why aren't you participating in this program?

ACTING CHAIRPERSON CAREY: Right.

MR. GUNNING: -- to try and crack them.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 9. Discussion and possible action regarding the audit recommendations of the Bureau of State Audits

ACTING CHAIRPERSON CAREY: Okay. We are on to the last significant issue, which is discussion and possible action regarding the audit recommendations from the Bureau of State Audits report. Steve.

MR. SPEARS: We'll jump right into this very quickly, Mr. Chairman.

In the memo that was provided, it's on Board package page No. 209, I've put the audit recommendations here.

The first recommendation is to the Legislature; the last two are to the Board. The third bullet, the third recommendation, I believe was taken care of with the action on the resolutions. And when we draft the business plan this year, we will put this language in the business plan. So recommendation No. 3 I believe is completed or is being completed.

The Board expressed an interest in discussing all of these. We were able to -- with Di's help, Howard Zucker provided some additional information about what other boards look like on bullet No. 1, the first recommendation.

I've also given you too many pieces of paper here and I apologize, but you have in front of you also the statute 50902 which spells out everything -- all the members except the ex officio members. These are all the appointed members. So you'd have to add on six members on top of the statute that you see there, the ex officio members, three voting, three nonvoting. The State Treasurer voting. BTH Secretary voting. HCD voting. And then the OPR Director, the Department of Finance Director, and the ED on the Board but nonvoting, so in addition to what you see on this piece of paper.

Then we also put in who the -- who is serving what category right now. There's a list for that. The only mistake on there is that we've not taken off Barbara Macri-Ortiz's name yet, which we should probably do.

MS. OJIMA: On mine it's current and you have this little form to indicate --

MR. SPEARS: Ok, okay. We thought that might help with everybody understanding what role all the Board members are playing.

But you can see then in this data that we've collected from other states quite a variety. We are not the largest by a margin. There is the state of Tennessee which has 19 Board members, and their director still has quite a bit of his hair, surprisingly.

And so I'm not sure how you want to proceed, Mr. Chairman, but we've got a lot of data in front of us on the Board makeup.

Now, on the second bullet, the staff felt it probably wasn't appropriate for us to recommend language since -- given the tone of the report and everything, but I did attempt to scribble down a sentence or two and hand to the Chairman as a simple statement of the Board's intent that we comply with this, as just a starting.

So with that, I will turn the mic over to you.

ACTING CHAIRPERSON CAREY: Well, we've got two issues and -- and let's deal with the second one first, the policy statement. I don't know how formal we feel we need to be in that action or reflecting that. From my point of view, I think the resolutions as adopted and then amended reflect the principle. And from that point, you know, my feeling is that -- that what we need in place is an understanding of policy for future boards so that -- and -- and staff so that it's set, but I don't know how form-wise that needs to be. From my point of view, it would be a pretty straightforward statement in the minutes that says the Board's policy is such and such.

And -- and the -- the language that was -- that I have here that to me covers it is to say: "To provide for clarity, accountable and transparency, it's the policy of this Board to require staff to present new financing strategies and new loan products for full discussion and approval by a simple majority vote of the Board prior to implementation by the Agency."

And that sort of covers, I think, the -- the issues that were raised in the audit regarding the rollout of the Interest Only product, for instance, or the 40 Year product. I think those are the specific products that were mentioned in the report -- that while they were in the business plan, they weren't specifically discussed as -- as -- as lending programs and -- and probably should have been.

MR. GUNNING: I'm sorry, where would you put that?

ACTING CHAIRPERSON CAREY: I -- if it was up to me, we'd state it for the minutes. And I don't know that I'd do anything more formally than that.

MR. GUNNING: But this meeting or every subsequent --

ACTING CHAIRPERSON CAREY: No. No, no, no, no. At this meeting as part of the formal record of the meeting. It could be a resolution. It could be whatever we want.

MS. CRESWELL: But does it have more weight if it's a resolution or something? And do you need to do anything -- I'm just thinking in terms of responding, then, to the audit committee. It might -- if you've got a formal resolution you've adopted, it might -- it might look more responsive, but I agree with the words you said.

ACTING CHAIRPERSON CAREY: Is the language reasonable language?

MS. PETERS: Could you just read it once more slowly?

ACTING CHAIRPERSON CAREY: Sure.

To provide for clarity, accountability and transparency, it is the policy of this Board to require staff to present new financing strategies and new loan products for full discussion and approval by a simple majority vote of the Board prior to implementation of the -- implementation by the Agency.

MS. PETERS: So "financing strategies" would be broad enough to catch the end of this finding regarding how much of the debt portfolio can be fixed or variable, what portion of the loans it purchases can consistent of mortgage products it identifies as riskier than -- do you feel that we've captured that, or are we making a conscious decision that that's getting too far down in the weeds?

ACTING CHAIRPERSON CAREY: Well, if I recall, and I'd open up the conversation, maybe the three key points raised in the audit were the decision to use variable-rate bonds, the decision to implement an interest-only program and the decision to go to a 40-year mortgage, not so much the issue of percentages.

MS. CARROLL: I agree with you. I think there was on -- I don't remember how specific, but there was some discussion about the extent to which the Agency used variable rate. And it is common in debt policies to establish a limitation on the amount of variable-rate debt that can be issued.

Now, I don't know if that's the case for HFAs, Steve. I know in other governmental types of settings it's a common limitation. And you know our state law says we only have 20 percent.

MR. SPEARS: Right. I don't know what the practice is in other agencies. I know that this Board discussed that as a goal going forward, to reduce the amount of variable-rate debt, one, and, two, to -- going forward for new issuance -- no loan origination, issue fixed-rate debt. And that was some time ago. Quite a while ago. Three, four years ago, I think. Bruce, maybe not quite that long?

MR. GILBERTSON: 2009 or maybe 2008, would be my recollection.

MR. SPEARS: It was before Terri -- or it was still while Terri Parker was director, I believe.

MR. GILBERTSON: Okay.

MR. SPEARS: But I don't know. I know that it is -- Ms. Carroll is right. It is common to have a policy that you're not to exceed a certain amount. I -- I don't know.

Bruce, do you know of any other states that have a formal policy that state the particular percentage?

The question I have while Bruce is coming up is -- and here again, this is for the Board to decide, but there are two sentences here in this recommendation. One is that you have a policy stating, and then the second sentence says the Board should where appropriate prescribe one that's -- and is that a separate policy, is it annually in the business plan? I just question whether it's part of this overall --

MR. GUNNING: Or on a case by case.

ACTING CHAIRPERSON CAREY: Would it be reasonable to add to this statement that in the annual financing resolutions, the Board will -- in approving the annual finance resolution, the Board would establish limits for various financing mechanisms?

MR. HUNTER: I don't think that's where it belongs. I have the same observation as Steve, just add that this second bullet point is actually a couple of different issues rolled into one.

And to me the issue of, you know, policy, talking about new debt issuance and new products, that that's a matter of policy that we're going to fully discuss as a Board before they're created by the staff.

The second half of this is a complicated -- is actually two different issues that to me are business plan issues, and where they belong is not in the annual resolution but in the annual business plan. When we're looking at the budget and weighing the business strategies, we're looking at the strategy, we're looking at that in the context of the economy and what's happening in the federal government, what's happening in the state, that those are business planning decisions and they ought to be addressed intentionally as part of the business plan.

I can't imagine creating a policy for here or for the next five years, even, on either of those issues that would not be subject to change depending on what's happening in the economy. You know, it has to do with risk management, risk assessment. And to me that's --

that's what the business plan is about. That's what our budget is about. And that's where that activity ought to happen.

ACTING CHAIRPERSON CAREY: Heather.

MS. PETERS: I agree.

ACTING CHAIRPERSON CAREY: Yeah.

MS. PETERS: I had a practical question. As we stand now based on prior direction of the Board, is it a true statement that we're not issuing any new variable-rate debt and haven't for many years, other than to swap out?

MR. GILBERTSON: Yeah, other than refunding activity, and that's clearly what the resolutions provide for this year.

And that was my comment. I think if you try to prescribe limits, okay, we might refund or redeem bonds in such a manner that we would exceed the limit that is established by the Board. But I think the Board knows that we are not going to use variable-rate bonds for any purpose for new lending initiatives. So we're not trying to grow the percentage of variable-rate bonds. We're actively trying to diminish that, but we can't control some of these things. We have to redeem certain bonds in certain cases when prepayments come into the portfolio --

MS. PETERS: I would --

MR. GILBERTSON: -- because it's a requirement of the indenture.

MS. PETERS: -- prefer not to issue a statement on that for exactly that reason.

MR. GILBERTSON: It's complicated to do something like that.

The other comment, I'm sure there are HFAs that have policy guidelines in this area. I think there are some boards that have policy guidelines that require every financing to come for approval of the board before they go to market as well. That really does -- that does impact some things.

You know, Justin has pointed out the other thing is that some of our conduit financing for multifamily is, of course, in the form of variable-rate bonds, and we discussed that. I think for purposes of the policy statement, we might not consider those in the policy statement. I'm not sure how the Board would want to proceed.

MS. CARROLL: It strikes me when, for instance, the state, other state entities, come up with a debt policy that has variable-rate limits, for instance, it's a very comprehensive policy and takes into account, you know, all the different variables that might affect the

Agency. So I think it's not something -- if we wanted to put that hard limit in a policy, it's not something we could craft, I think, in a day. And I think honestly we'd have to ask the staff to come back with a recommendation on how such policy would be crafted. I don't think it's something we'd do.

ACTING CHAIRPERSON CAREY: So would we be comfortable separating those two out and -- and -- with -- and following with Ms. Creswell's suggestion asking that this statement come back to us as a resolution at the next Board meeting so that we can move one piece along with this statement? Do we all seem to be comfortable with it?

MS. PETERS: And state the Board's intention to have staff address the second half of this --

ACTING CHAIRPERSON CAREY: Yes.

MS. PETERS: -- in the business plan to the extent applicable.

ACTING CHAIRPERSON CAREY: Yes.

MS. PETERS: I mean, it may be a simple statement that for the next five years we don't anticipate using this beyond redeeming out what we're already doing, but at least it's a topic of discussion in the context of the business plan, which is where I believe it belongs to be flexible, especially in this market.

ACTING CHAIRPERSON CAREY: Is that reasonable?

MR. SPEARS: It is.

ACTING CHAIRPERSON CAREY: So that doesn't take action. You'll -- that will come back.

MR. SPEARS: I just need that piece of paper back.

ACTING CHAIRPERSON CAREY: Yes.

MS. CRESWELL: So on this -- they're going to come back and check in 60 days, which will be in April, so -- so you'll have basically what we've talked about today to be able to report back to them in terms of what we've done.

MR. SPEARS: Right.

MS. CRESWELL: Because we want to be able to show some action.

ACTING CHAIRPERSON CAREY: Good point.

MS. PETERS: We have verbatim minutes.

ACTING CHAIRPERSON CAREY: We have language, and, that's right, it's verbatim for the record.

MS. CRESWELL: And it sounds like -- or we haven't started talking about the Board's composition --

ACTING CHAIRPERSON CAREY: No.

MS. CRESWELL: -- yet.

ACTING CHAIRPERSON CAREY: No. Unless I stepped out of the room.

MS. PETERS: Speaking of stepping out of the room.

ACTING CHAIRPERSON CAREY: Okay.

MR. GUNNING: Mr. Twelve O'clock.

ACTING CHAIRPERSON CAREY: Well --

MR. SPEARS: I've already offered to get Ms. Peters a muffin.

MS. PETERS: That's what the giggle was. He was making sure I was fed because I get cranky.

ACTING CHAIRPERSON CAREY: Okay. We have one -- one piece of discussion left, and that's the Board composition. Do we want to -- are we asking to take a break?

MS. PETERS: Well, I --

ACTING CHAIRPERSON CAREY: Do we want to do that?

MS. PETERS: -- I feel that it's a fairly significant discussion, so I would either request a short break with perhaps everybody's schedule being discussed and does anyone have a flight they need to leave that's going to impede a thorough discussion of this now, in which case maybe we want to put that off for the next Board meeting, or if everyone is here and able to hash through it, then maybe a half-hour break to get something to eat and then hash through it today.

ACTING CHAIRPERSON CAREY: Schedules, I think folks have some --

MS. CRESWELL: My flight's at 2:15, and I sort of need to make it.

ACTING CHAIRPERSON CAREY: Yeah. And we're -- we're running down here a little bit. So if -- if that's a suggestion that we continue it to the next meeting?

MS. PETERS: Either continue it to the next meeting or just have a very --

ACTING CHAIRPERSON CAREY: Brief discussion.

MS. PETERS: -- cursory discussion that would be food for thought for all of us to process on our own until the next meeting, because I -- I think it's very important, and I think the Board definitely wants to take action on this. And I think it requires more than a cursory discussion.

MR. GUNNING: Mr. Chairman.

ACTING CHAIRPERSON CAREY: Yes.

MR. GUNNING: If they're back in 60 days and the next meeting is in May, we won't have an opportunity to.

MR. HUNTER: Well, but I -- you need to be clear. This is a matter for the Legislature ultimately, and, trust me, they're not going to get to this in the next 60 days.

MS. CRESWELL: And I think it --

MR. HUNTER: When the auditors come back, we just need to tell them we're starting to gathering information. We're starting to think about this, and we're going to try to provide our suggestions to the Legislature, but ultimately the timing of this is up to the Legislature.

MS. CRESWELL: And I think it's reasonable that if you are going to take time to do research and to consider -- so I don't even think they wouldn't expect in 60 days, but they just want to know your progress. And if we started the research, we've done this, I think that could be appropriate.

MS. PETERS: Yeah, as a normal course, I think the BSA would probably be thrilled that we've already taken action on as much as we did. There's a 60 days and then there's another reporting period of several months and then a year, so their anticipation in issuing an audit report of this magnitude is that there will be several reporting stages.

So I don't think there's any anticipation that we're going to resolve everything today, but I think just as a matter of statement of policy, it might be nice to have in the minutes that we -- accept this as we said in our response letter and here's our plan for how we're going to address it.

MR. SPEARS: Well, I would just say that the BSA just recently issued a report on audit recommendations, and the remarkable finding was how many folks are not following their recommendations, so they would be ecstatic.

ACTING CHAIRPERSON CAREY: They were surprised.

MR. SPEARS: We're making substantial progress on two thirds of these and doing a lot of research on the third.

MS. PETERS: So perhaps just to summarize, that we make a -- enter in the minutes that it's the concurrence of the Board that we agree with the policy behind the recommendation, that we have gathered a good deal of information that was just put in our book today, and we'll continue to research it, direct staff to provide us with their research as they develop it, with the intention that we will revisit this if not in May, very shortly thereafter, to adopt a formal position on what we would suggest to the Legislature in this regard.

MR. SPEARS: Just one question from staff. Do the Board members need any other additional information? You may be surprised by this, but Mr. Hughes has an opinion or two about how this statute works, and he could provide some of those thoughts in a memo form next time around. But if there's anything else Board members need, just -- just let us know.

ACTING CHAIRPERSON CAREY: Ms. Creswell.

MS. CRESWELL: Well, I just think it is -- would be helpful, you know, I don't know necessarily that it does require a statutory change. You know, when you look at -- when you look at -- you know, there wasn't supposed to be funding to do residential. So I mean, it seems to me that it's not a foregone conclusion that we're either going to expand the Board or -- or necessarily, you know, change these people here.

So it does seem like we just need -- we do need some sort of initial additional work on, you know, sort of what kind of people have filled these positions before and is there a way to, without legislative change, get at the interest that they -- they have.

ACTING CHAIRPERSON CAREY: Given that --

MS. CRESWELL: I mean, it may be, all right, do you really need a manufactured housing finance person on here? I mean, certainly it might be a good time to review it, but -- but it just seems like we don't know yet what trying to meet the intent of this is. And so I guess I just want to make sure we've sort of fully explored all of what that might be, including some of your thoughts about what some of the requirements or -- or just the history or whatever. That would be appropriate.

MR. HUGHES: I do think that the threshold question here really is whether the Bureau of State Audits is recommending that there be a finance specialist on the Board at all times. If you read the statute, the laundry list, are four gubernatorial appointees from a laundry list of more than four categories. There's no requirement that the appointing power choose a finance authority, for example.

The ultimate question is, I think, on an 11-member voting board, would the recommendation be to expand the Board, No. 1, or, two, take away from some of these categories?

And then the next question is you can see in subsection C the -- those two positions are mandatory, not from a laundry list. Those are mandatory. Do we want to make a finance position a mandatory position? So I think those are kind of the threshold questions.

And if -- if there's a -- if the finance person would be put in the subsection B laundry list, you either expand it or take some of those off. Some of them are probably fairly obsolete. So there's -- there's several aspects to this that probably are the seminal questions.

ACTING CHAIRPERSON CAREY: And my reading of the statute is this: It's overly prescriptive. It's just -- by the time you get through it, you have to go back and read it again to see if you can really figure it out. And it just seems -- seems limiting. In fact, I know, different conversations by now, which seat are you filling? I just think it -- to me it's overly prescriptive. And I think maybe there's room to simplify it and give the Governor and the Legislature room to appoint as they see appropriate.

MS. CRESWELL: Which would likely then not be responsive to this finding, which seems to imply you need to be more explicit about these particular expertises.

But certainly when you look through the list of how other agencies, some of them just say, yeah, six Governor's appointees, doesn't matter from what. They could just do whatever they want, so -- but that, I think, would be the good -- kind of if staff could flesh out all of those various kinds of issues for us, it would be easier to kind of make a decision or think through this discussion.

ACTING CHAIRPERSON CAREY: And I don't think --

MS. PETERS: It would help to frame the issues, so have Tom frame the issues just like he did here. Are you going to expand? Are you going to prescribe or loosen or -- frame the issues for us would be very helpful.

And you asked if staff could do any more research, this was a great packet of stuff, and I would just ask that if it's not already in here, if you could call out and make sure that we get whichever states are most comparable to California in size and in other factors that you find relevant so that we're not just looking at a laundry list of every state, but, you know, something --

ACTING CHAIRPERSON CAREY: Relevant.

MS. PETERS: -- similar.

ACTING CHAIRPERSON CAREY: Yes.

MR. GUNNING: When was the term amended to five years? It says six.

MR. HUGHES: The Board terms are six years. Five years is for the chair.

MR. GUNNING: And me?

ACTING CHAIRPERSON CAREY: Six years.

MR. GUNNING: All? I thought it was five.

MR. HUGHES: The executive director has a five-year term. The chairman has a five-year term, as chair, not as a Board member, and Board members have six-year terms.

ACTING CHAIRPERSON CAREY: It's a little bit longer sentence than you thought.

MR. SPEARS: And -- and I believe the statute's explicit that if you're doing a great job, you can be reappointed.

ACTING CHAIRPERSON CAREY: I thought it was remedial last year.

Mr. Hunter.

MR. HUNTER: I also -- you know, one of the other things that I think would be helpful to get in the background information in terms of other states is I'm aware of the fact that California has structured its housing activities, state housing activities, different from many of these other states. So, for instance, in many states, HCD and CalHFA are the same thing.

MR. SPEARS: And CDLAC and TCAC are in the same agency.

MR. HUNTER: So it would be helpful, you know, in the states that you've included with -- so they have this Board, what function is that board overseeing in that state.

The other thing that I found really interesting is I really would like to know what this doubting to drafting is from. Is this just here at CalHFA or --

MR. HUGHES: There is -- there was a book published in the late 70s called Politics Backstage by one of the two drafters of CalHFA's statutes, which is basically a legislative history of a bill from conception to enactment as a political exercise, but it details in elaborate depth the creation of CalHFA and how the statutes evolved. So as you can see from that excerpt, many of these laundry list positions were in there simply because they needed the support of those organizations to get the bill passed.

MS. PETERS: Not a surprise.

ACTING CHAIRPERSON CAREY: Okay. With that, that will be on a future agenda.

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Item 11. Reports.

ACTING CHAIRPERSON CAREY: Are there any items in the reports that need attention?

MR. SPEARS: I would just say this not an accident but there's not a legislative report. We put that as a placeholder because there was a deadline between the time we were planning the meeting and today. And Di looked through the bills. There's not one at this point, anyway, that we're concerned about, so we have no report on that.

Mr. Gunning.

MR. GUNNING: We will agendize for the next time the Compensation Committee, the charter?

(Court reporter interruption.)

ACTING CHAIRPERSON CAREY: Yes. Review and possible amendment to the charter of the Compensation Committee.

MS. PETERS: And discussion of scope of their work?

ACTING CHAIRPERSON CAREY: Yes. Yeah.

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Item 12. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Other Board matters?

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Item 13. Public testimony

ACTING CHAIRPERSON CAREY: Okay. This is an opportunity for the public to address the Board on matters not on the agenda. Is there anyone here that wishes to address the Board?

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Item 14. Adjournment

ACTING CHAIRPERSON CAREY: Seeing none, we are adjourned.

(The meeting concluded at 1:15 p.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 5th day of April 2011.

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

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