

A P P E A R A N C E SBoard of Directors Present:

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

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

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

JONATHAN C. HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

HEATHER PETERS (arrival after roll call)
for TRACI STEVENS, Acting Undersecretary
Business, Transportation & Housing Agency
State of California

JACK SHINE
Chairman
American Beauty Development Co.

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith

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CalHFA Staff Present:

GARY M. BRAUNSTEIN
Special Advisor to Executive Director

KENNETH H. GIEBEL
Director of Marketing

BRUCE D. GILBERTSON
Director of Financing

VICTOR J. JAMES, II
Deputy General Counsel

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

L. STEVEN SPEARS
Chief Deputy Director

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CalHFA Board of Directors Meeting - July 21, 2011

BE IT REMEMBERED that on Thursday, July 21, 2011, commencing at the hour of 10:02 a.m., at the Burbank Airport Marriott Hotel and Convention Center, Producers A and B, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

1 --oOo--

2 ACTING CHAIRPERSON CAREY: I'd like to welcome
3 everyone to the Board of Directors of the California
4 Housing Finance Agency, July 21st.

5 --oOo--

6 Item 1. Roll Call

7 ACTING CHAIRPERSON CAREY: Our first of order of
8 business is roll call.

9 MS. OJIMA: Thank you.

10 Ms. Creswell.

11 MS. CRESWELL: Present.

12 MS. OJIMA: Mr. Gunning.

13 MR. GUNNING: Here.

14 MS. OJIMA: Mr. Hunter.

15 MR. HUNTER: Here.

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

17 MS. CARROLL: Here.

18 MS. OJIMA: Mr. Shine.

19 MR. SHINE: Here.

20 MS. OJIMA: Mr. Smith.

21 MR. SMITH: Here.

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

1 (No audible response.)
2 MS. OJIMA: Mr. Alex.
3 (No audible response.)
4 MS. OJIMA: Ms. Matosantos.
5 (No audible response.)
6 MS. OJIMA: Ms. Cappio.
7 MS. CAPPPIO: Here.
8 MS. OJIMA: Mr. Carey.
9 ACTING CHAIRPERSON CAREY: Here.
10 MS. OJIMA: We have a quorum.
11 ACTING CHAIRPERSON CAREY: Thank you, JoJo.
12 --oOo--
13 **Item 2. Approval of the minutes of the May 19, 2011**
14 **Board of Directors Meetings**
15 ACTING CHAIRPERSON CAREY: Next item of business
16 is approval of the minutes of the May 19th Board of
17 Directors meeting.
18 MS. CRESWELL: So moved.
19 ACTING CHAIRPERSON CAREY: It's been moved.
20 MR. GUNNING: Second.
21 ACTING CHAIRPERSON CAREY: And seconded.
22 Roll call.
23 MS. OJIMA: Thank you.
24 Ms. Creswell.
25 MS. CRESWELL: Yes.

1 MS. OJIMA: Mr. Gunning.

2 MR. GUNNING: Yes.

3 MS. OJIMA: Mr. Hunter.

4 MR. HUNTER: Yes.

5 MS. OJIMA: Ms. Carroll.

6 MS. CARROLL: Yes.

7 MS. OJIMA: Mr. Shine.

8 MR. SHINE: Yes.

9 MS. OJIMA: Mr. Smith.

10 MR. SMITH: Yes.

11 MS. OJIMA: Mr. Carey.

12 ACTING CHAIRPERSON CAREY: Yes.

13 MS. OJIMA: The minutes have been approved.

14 --oOo--

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

16 ACTING CHAIRPERSON CAREY: Next item of business
17 is chairman/executive director comments. In keeping
18 with my recently ended vacation, I'm simply going to
19 turn it over to Executive Director Ms. Cappio.

20 MS. CAPPIO: Thank you. Good morning.

21 I have a couple of items to update the Board on.

22 First, there has been a recent Court of Appeals
23 decision regarding furlough pay. You may remember that
24 the Legislature and Governor created the furlough system
25 to save General Fund money, and this has been navigating

1 its way through the courts. And there's been a recent
2 decision that distinguished CalHFA and about five or six
3 other agencies as not being subject to General Fund
4 or -- general funding, and therefore we've been asked
5 for more information. And the furloughs may or may not
6 apply.

7 We've looked at this, the senior staff, and
8 believe that we could accommodate any back pay, should
9 that occur in the next budget year. We'll keep you
10 posted on that, but this would have a budget implication
11 because of the furlough dates that have to be now
12 compensated.

13 Secondly, Chairman Carey asked me to comment
14 briefly on the notion that the Governor is very intent
15 upon consolidation and reorganization of the state
16 bureaucracy. We have been looking at this as a housing
17 function team in the last couple of months, meeting with
18 HCD, CalHFA, CDLAC, TCAC, in an effort to look at where
19 we -- there are opportunities to work better together.
20 And our aims have been efficiency, coordination and
21 better collaboration together, looking at such issues as
22 a common database, streamlining application procedures
23 and time lines, what we could do to consolidate
24 functions that make sense. We have this notion that
25 underwriting may be one of those that we do well and

1 could make sure that we offer that to other agencies.
2 And then the big -- the big dilemma about how to asset
3 manage effectively.

4 We'll continue to update you. Again, this is a
5 priority of the Governor, and I think now that the
6 budget is completed, thank goodness, we can get on to
7 that, that other work.

8 And lastly, there was a recent decision by HUD
9 regarding the PCBA program. We had spent lots of staff
10 resources and time and energy on submitting an
11 application and it -- staff worked exceedingly hard. We
12 think we had a very competitive application, and we lost
13 by two hundredths of a point. It was extremely
14 disappointing to us. And I figured -- I never knew it
15 was, like, failed by two hundredths of a point, but it
16 was.

17 There has been some -- some fallout from that.
18 We will be continuing to monitor that. Many state HFAs
19 were involved, and there has been some very surprising
20 decisions, to say the least. We will be continuing to
21 follow that, but I wanted to make sure that you all knew
22 that.

23 And that ends my report.

24 ACTING CHAIRPERSON CAREY: Could I ask, the Tax
25 Credit Allocation Committee's sponsoring meetings on

1 cost containment. Are we actively participating in
2 those also?

3 MS. CAPPPIO: Yes. We have a representative to
4 that, and that's been one of my big ones, really big. I
5 think we have to look at those subsidies per unit very
6 hard, not only in an effort to look at how we can spread
7 those resources more effectively -- because dime or
8 dollar, there's going to be less resources to go around,
9 at least in the next few years -- but also looking at
10 how we can work together to provide that kind of
11 efficacy as well.

12 So, yes, we are in that. And there's a lot of
13 pressure on us as the subsidies we get continue to
14 decrease.

15 ACTING CHAIRPERSON CAREY: Okay. Thank you.

16 --oOo--

17 **Item 4. Discussion, recommendation and possible**
18 **amendment of Resolution 11-07 regarding the Agency's**
19 **Two-Year Business Plan for Fiscal Years 2011/2012 and**
20 **2012/2013 (Resolution 11-09)**

21 ACTING CHAIRPERSON CAREY: Next item of business
22 is -- relates to the possible amendment of the two-year
23 business plan which was approved at the last meeting.

24 Is Steve going to handle that?

25 MS. CAPPPIO: Yes. Steve and Gary.

1 ACTING CHAIRPERSON CAREY: Steve and Gary.

2 MR. SPEARS: Thank you, Mr. Chairman, Members.

3 Good morning.

4 At the last Board meeting where we discussed the
5 business plan, there was -- there were several
6 homeownership products that were discussed. A couple of
7 them were approved. There were questions about two
8 others, the MCC program, a tax-credit program, and a
9 conventional loan product that was discussed where we
10 would have 97-percent first mortgage, fixed rate. That
11 would be insured by Genworth, and they were going to
12 offer us a mortgage insurance product with job loss
13 protection that was exclusive to us, terms that were
14 exclusive to us. So there were questions asked about
15 that.

16 We've brought that back. I'm going to let Gary
17 go through the questions, the slides, follow the memo
18 that -- that was presented to you in your binders. So
19 just stop us anytime you want to ask questions as we're
20 rolling through this, but I'd just ask Gary to kind of
21 go through both of these two products.

22 MR. BRAUNSTEIN: Thanks, Steve.

23 Good morning, Board members.

24 What I thought I'd do before we just jump into
25 the products themselves is to just give you a reminder

1 on what's common to all of our loan programs and our
2 current business model and how we're operating the
3 homeownership loan programs.

4 And what I did was I broke it down initially on
5 Agency risk, delinquency risk and Agency impact, and
6 then borrower risk and mission to the borrower. I just
7 wanted to highlight how these are all common to the
8 products that we're currently doing across the board,
9 and the new products that we're proposing will adhere to
10 this model as well.

11 So from an Agency risk, I just want to remind
12 the Board that we are using a master servicer, Bank of
13 America. So the loans are purchased and serviced by
14 them, and therefore the reps and warrants are
15 transferred to them from CalHFA because the lenders are
16 submitting their loans directly for purchase to Bank of
17 America.

18 There's no real estate risk on our balance
19 sheet. Bank of America pulls the loans, securitizes
20 them. We're buying the Ginnie Mae security or the MBS
21 security from Bank of America and putting them on our
22 balance sheet as assets. CalHFA only purchases the MBS
23 securities, and they're guaranteed by the federal
24 government.

25 From delinquency risk standpoint and any impact

1 to the Agency, just a reminder that we don't have any
2 delinquency risk in this business model. Again, we're
3 not holding whole loans. Bank of America has taken
4 those whole loans purchased by our lenders and then
5 converted those to securities, as I mentioned.

6 The borrower's pay history is -- is -- is
7 transparent to us because we still receive scheduled
8 payment and principal interest to the Agency, regardless
9 of a borrower not making payments on time. Again, we're
10 not holding the whole loan; it's a security that we
11 purchased, and Bank of America is servicing those loans
12 and guarantying those principal and interest payments to
13 us.

14 From a borrower risk standpoint and mission to
15 the borrower, I'd just remind that -- remind you that
16 our borrower profile is low and moderate income
17 borrowers who typically have a need for a higher --
18 higher loan to value purchase, and therefore at the time
19 of purchase there's limited equity, but it's within our
20 business model. It's our mission to -- to the low and
21 moderate income family. And, again, our borrower
22 profile is the high loan to value borrower.

23 Some -- some recent trends that are happening in
24 California are actually showing evidence of improving,
25 and I believe there's a chart that we received from

1 Genworth that shows what their risk managers went
2 through in determining, offering us the 97-percent
3 mortgage insurance in California statewide. And, in
4 fact, they now are, in turn, offering that lender scheme
5 to other outside lenders as well. So, again, their
6 comfort level with California's economic improvement is
7 moving in the right direction. It's beginning to
8 stabilize, as with any other mortgage insurer, because
9 there's about five other mortgage insurers that are now
10 offering 97-percent loan to value in California. I'll
11 go over that in just a minute.

12 I just wanted to point out that some of the
13 evidence of the first-time homebuyer activity in
14 California is evidenced by FHA's increased market share
15 is now 35 percent of the market. And 85 percent of
16 FHA's loan volume is to the first-time homebuyer. Why?

17 Because they're at a 96.5-percent loan to value. And
18 I'll go over later in the slides to show that they allow
19 for government assistance downpayment and closing costs
20 on a conventional product that we're talking about, as a
21 reminder to the Board that the borrower's going to have
22 3 percent of their own cash into the transaction.

23 Additionally, we are imposing homebuyer
24 education on all of our borrowers on all of our loan
25 products. We initiated that last year, and we're

1 currently doing that today, and we'll be going forward
2 on the same -- same model.

3 So just a quick recap of what we presented to
4 you last Board meeting, the conventional product is a
5 30-year, fixed-rate, fully amortized, fully documented
6 loan. The insurer of this product will be Genworth.
7 The maximum loan to value is 97 percent. We do need to
8 take away the exclusive to CalHFA because, as I
9 mentioned, they are offering 97 percent to all lenders
10 throughout the state, but there are some concessions and
11 incentives to CalHFA within this relationship, and I'll
12 go over that in just a minute.

13 The maximum combined loan to value is 103
14 percent that's being offered through us as an HFA. They
15 offer this to other HFAs across the country. Obviously
16 HFAs have the opportunity of providing government
17 assistance for downpayment and closing costs. On a
18 conventional loan of a loan to value up to 97 percent as
19 an HFA, as other HFAs across the country, we're able to
20 do 103 percent, giving the benefit of the borrower to
21 have access to downpayment and closing cost assistance.

22 The minimum FICO when we presented it to you
23 last time was 720. I think in Steve's executive memo to
24 the Board members, we were having discussions with
25 Genworth, again, since they were offering this to

1 lenders throughout California and across the country.
2 They did come back and looked at California again. They
3 looked at our delinquency percentages, and they were
4 offering us a FICO to our borrowers of 680 as a minimum.

5 Our minimum FICO for FHA is currently 640, so there's a
6 nice risk balance between the FHA product that we offer
7 today with a minimum FICO of 640 to this conventional
8 product on the same loan to value of -- or approximately
9 the same loan to value of 97 versus 96.5 with a minimum
10 FICO of 680.

11 Again, the difference between FHA is this
12 product, if the loan is 95-percent to 97-percent loan to
13 value, the borrower will need to come in with 3 percent
14 of their own funds. They can't receive government
15 assistance for that downpayment, nor the same for
16 closing costs. It has to have their own funds of 3
17 percent. So there's an inherent equity spread of 3
18 percent on this product compared to the FHA that will
19 have government assistance.

20 The borrower on this product needs two months'
21 reserves. On an FHA product, they don't. So you can
22 see how the risk balance of the two products are
23 developing out. This will have a job loss protection,
24 which is offered by Genworth through the relationship of
25 offering the mortgage insurance, and we'll have that as

1 an opportunity for our borrowers.

2 And this particular product, we have agreed with
3 Genworth that it won't be open to wholesale mortgage
4 brokers. It will just be to our lenders who have a
5 retail channel. Those channels deal directly with the
6 lender whereas the wholesale brokerage community is a
7 third-party originated product.

8 Some specifics to this program: The borrower's
9 risk and the mission to the borrower, again, I pointed
10 out earlier about the comparison of FHA at 96.5 and this
11 product being 97. FHA, again, having government
12 assistance for downpayment and closing costs. This
13 product will have 3 percent of the borrower's funds.

14 Some unique components on conventional products
15 today versus FHA, you may be asking why we're offering
16 this product to -- to the borrowers, FHA is tightening
17 up a little bit on some property restrictions. For our
18 first-time homebuyers, oftentimes they're moving into
19 communities or condominiums where there's a large
20 percentage of -- there's -- excuse me, there's a smaller
21 percentage of FHA loans in them, in the condominium, and
22 therefore FHA has a maximum of how much of FHA exposure
23 they'll have to a condominium, so it segments out our
24 borrowers going into low and moderate income condos if
25 we don't have a conventional product to allow them to do

1 that. This conventional product allows them to go into
2 a property where the majority might be FHA. If we only
3 had an FHA product, we wouldn't be able to, you know,
4 help and assist those borrowers that were seeking that
5 low and moderate and -- excuse me, their opportunity of
6 purchasing that property.

7 The demographics, we talked about this last
8 time, this is being offered to us statewide. Here's a
9 reference to the quote the Genworth risk managers, you
10 know, provided me and in support of their decision to go
11 97 percent. They were saying that in California,
12 there's some positive changes in the home price indexes.

13 Those indexes include home inventory, price income,
14 multipliers, price rent, multiple affordable index. And
15 most of these indicators, other than the home -- home
16 inventory, is all in a stabilizing and maintaining or
17 improving mode that they're seeing in California.

18 An example of that is, as I mentioned before,
19 there's about five other mortgage insurers that are
20 offering 97-percent loan to value in California.
21 They're UGI, PMI, MGIC, and RMIC. Again, just an
22 example that they're seeing some stabilization in
23 California.

24 Again, specific to this product there were some
25 questions as to why Genworth. As you know, Genworth has

1 been a partner of CalHFA for eight years as the
2 reinsurer for the California Housing Loan Insurance
3 Fund. Genworth currently is paying CalHFA approximately
4 \$10 million in mortgage insurance claims.

5 MR. SPEARS: Per month.

6 MR. BRAUNSTEIN: Per month. And Genworth has
7 agreed to offer this at 97 percent statewide with no
8 county restrictions. Again, over the last 30 days when
9 we last met, they are now offering that same opportunity
10 statewide, so that's a piece that we're not having
11 exclusivity with them.

12 From a rating agency impact, these will be
13 fixed -- fixed bonds, insured. The finance is
14 conventional MBS and expected to be AAA when they're
15 financed by our bond portfolio. And, of course,
16 profitable loans will increase the Agency's capital
17 base.

18 The financing sources on this product is going
19 to be bonds to the end of the year because we have the
20 opportunity of the NIBP locked-in rate till the end of
21 the year. Going forward we all are not sure if the NIBP
22 will be extended, but this conventional product can be
23 converted to and transparent to our lenders and
24 borrowers by converting it to a capital market
25 execution, which is a business model that I referenced

1 last Board meeting.

2 In that non-bond structure, just as a reminder,
3 Bank of America and Merrill Lynch will be hedging and
4 taking on the interest-rate risk if we're moving in a
5 capital market execution, so there's no impact to the
6 Agency's expected revenue. And, again, when we work in
7 the capital market, we can offer our loans to first-time
8 homebuyers as well as not first-time homebuyers, so more
9 opportunities for Californians to purchase homes through
10 a CalHFA loan program.

11 Any questions on the conventional product?

12 Yes, Jack.

13 MR. SHINE: Stop me where I'm misinformed.

14 MR. BRAUNSTEIN: Okay.

15 MR. SHINE: Our program, the 97, lets a person
16 come in and get a 97-percent loan, and they have to come
17 up with 3 percent in cash.

18 MR. BRAUNSTEIN: Right.

19 MR. SHINE: The current program from FHA that
20 Genworth is insuring lets them come up with a 97-percent
21 loan and borrow the 3 percent.

22 MR. BRAUNSTEIN: No, the current program is
23 insured by FHA. So it's not a Genworth --

24 MR. SHINE: I know that. The buyer can come in
25 and get a 97-percent loan and borrow 3 percent under the

1 FHA program.

2 MR. BRAUNSTEIN: Let me make a little
3 clarification. On an FHA product insured by the federal
4 government through FHA, the loan to value is 96.5
5 percent. So the 3 and a half for the downpayment can be
6 borrowed or financed through a government agency for the
7 downpayment and the closing costs. And we do that today
8 on our FHA --

9 MR. SHINE: So he moves in --

10 MR. BRAUNSTEIN: -- product.

11 MR. SHINE: He moves in with no money.

12 MR. BRAUNSTEIN: Excuse me?

13 MR. SHINE: The buyer moves in under that
14 program with no money.

15 MR. BRAUNSTEIN: On an FHA loan, they -- they --
16 they could borrow for the downpayment and for the
17 closing costs. If they borrow -- excuse me, if they use
18 our downpayment or our closing costs assistance program,
19 our CHDAP, they do require -- it's a thousand dollars of
20 the borrower's funds in that case.

21 MR. SHINE: Why would a borrower use our
22 program?

23 MR. BRAUNSTEIN: The conventional product? The
24 conventional loan that's insured by --

25 MR. SHINE: The buyer comes in under Cal97 where

1 they can't -- when they have to put up 3 percent versus
2 an FHA where they put up zero, why would a borrower
3 charge -- why would a borrower choose our program versus
4 the FHA program?

5 MR. BRAUNSTEIN: Well, an example, the mortgage
6 insurers in California, Genworth for example, 15 percent
7 of their business in California is their conventional
8 product, so there's an example that there's a
9 marketplace for borrowers seeking a conventional loan
10 versus an FHA loan. In our case, our borrower who is
11 seeking, as I mentioned the example of a condominium
12 that may restrict them out of being able to purchase in
13 this condominium because FHA has a -- has a majority of
14 loans issued to borrowers in that condominium, they
15 would close out future borrowers getting an FHA loan for
16 that condominium project. So a borrower going to a
17 lender who is seeking that particular property for
18 purchase would be seeking out a conventional product,
19 either through us or anyone else.

20 MR. SHINE: Let me turn it around into my overly
21 simplistic way of saying it. You're saying that the
22 borrower would rather take an FHA loan, can't get one,
23 so to the extent that it's unavailable to him, he'll use
24 our product, and to the extent that it is available to
25 him, he will not use our product. Is that what you

1 think would happen?

2 MR. BRAUNSTEIN: Well, there's a time and place
3 for a conventional loan to be the right loan for the
4 borrower based off of either qualifications, eligibility
5 or the property they're purchasing. I just gave you one
6 example. There's many.

7 MR. SHINE: So if FHA wouldn't qualify him and a
8 conventional would, then he'd go get with our product.

9 MR. SPEARS: Probably.

10 MR. BRAUNSTEIN: Right. I mean, this is a
11 product --

12 MR. SHINE: So this is a backup program.

13 MR. BRAUNSTEIN: Well, right now 99 percent of
14 our current business is FHA because our current
15 conventional product is not structured the way we've
16 just designed. I'm projecting around 150 million to
17 close to 200 million in conventional business in the
18 next fiscal year as a balance, an adjunct, to our FHA
19 product. And so --

20 MR. SHINE: You could --

21 MR. BRAUNSTEIN: -- it's an opportunity of
22 offering this product for those borrowers that either,
23 A, don't qualify for FHA, the property they're
24 purchasing doesn't meet FHA guidelines, and because of
25 FHA's current monthly insurance renewals that have

1 recently increased, a borrower's monthly payment on a
2 conventional product is somewhat close to what their
3 monthly payment will be on an FHA product.

4 MR. SHINE: So we are then somewhat, you might
5 say, like a safety net for people who can't get the
6 loans, the FHA loans, under whatever other circumstances
7 there are, would be able to use our loans because we can
8 give them something that FHA can't.

9 MR. SPEARS: You could describe it as a backup
10 program. We prefer to think of it as that we have more
11 flexibility.

12 MR. BRAUNSTEIN: And a wider product.

13 MR. SHINE: That would work well. That's a
14 terrific thing you're doing. I just want to -- in my
15 own mind, I'm looking at the programs trying to figure
16 out why would anybody use our program if they could get
17 an FHA loan?

18 MR. BRAUNSTEIN: Well --

19 MR. SHINE: The answer, it seems to me, is --

20 MR. SPEARS: Over the years --

21 MR. SHINE: -- here we are.

22 MR. SPEARS: Right. Over the years, Jack, we've
23 offered both for that reason, for the same reason. You
24 may come in for whatever reason, people come from
25 different parts of the state, they may want to buy a

1 condominium in the inner city, they may want to buy
2 something rural, it just provides us with more products
3 for somebody to qualify for.

4 MR. BRAUNSTEIN: An example --

5 MR. SHINE: We should let everybody know what
6 we're doing here. I think that's a terrific opportunity
7 for someone who needs to have a --

8 MR. SPEARS: We're going to turn that part over
9 to Mr. Giebel in the marketing department.

10 MR. SHINE: Thank you.

11 MR. BRAUNSTEIN: A perfect example would be,
12 Jack, if you go to Wells Fargo and you go online and you
13 just look at the mortgage products that they offer,
14 you'll see that they don't just offer a conventional
15 product and nothing else or an FHA product and nothing
16 else. You'll see they offer a handful of conventional
17 products, a handful of different FHA products, and a few
18 different, you know, loan terms as well for each of
19 those that I described earlier.

20 MR. SHINE: I think it's terrific.

21 MR. BRAUNSTEIN: Thank you.

22 MS. CRESWELL: I just had a question, then. So
23 can you clarify for me the circumstances in which
24 somebody -- so who won't qualify for under the FHA
25 program that might be interested in this, and then also

1 is it accurate, then, that the FICO score that you're
2 going to be requiring on this is going to end up
3 significantly higher than what the FHA is?

4 MR. SPEARS: 40 points, yeah.

5 MR. BRAUNSTEIN: 680 instead of 640.

6 MS. CRESWELL: Now it's 720?

7 MR. BRAUNSTEIN: No. It was able to be dropped,
8 actually, for our -- to provide a little piece of
9 exclusivity for CalHFA because, as I mentioned, they are
10 offering that same product, this 97-percent conventional
11 product, to the lending community at 720 based off of
12 their review of our portfolio, our delinquencies, our
13 quality of the paper that we -- that we bring in, the
14 type of borrowers that we help for homeownership,
15 they're comfortable in offering our program to be at a
16 580 -- excuse me, a FICO of 680 compared to the other
17 lenders, so, again, a wider opportunity for our lenders
18 to use our product. If they have a borrower that is 720
19 to 680, they'll seek our product because they won't be
20 able to do it themselves, so we'll be able to help more
21 borrowers.

22 For the qualifications, again, the marketplace,
23 what's happening is some sellers who are selling their
24 homes are actually in some cases not taking sales offers
25 from borrowers who are considering using an FHA

1 financing. Sometimes the FHA insurability aspect of
2 what our lenders need to go through becomes timely, and
3 sellers are tending to push that away. In certain cases
4 sellers oftentimes on an FHA loan are being asked to
5 provide seller concessions. And there's cases where
6 sellers are not wanting to offer a -- take a buyer who's
7 seeking an FHA loan, so they'll push that -- they'll
8 push that back, and they'll seek only borrowers that are
9 prequalified or proceeding with a conventional product.
10 Again, it's another place for the conventional product
11 to be an augmentation to our FHA product.

12 MS. CRESWELL: Thank you.

13 ACTING CHAIRPERSON CAREY: Other questions?

14 MR. SPEARS: It is an action item, Mr. Chairman,
15 just because it's an amendment to the business plan that
16 was adopted in May, so there is a resolution in the
17 binder.

18 ACTING CHAIRPERSON CAREY: Were you going to
19 discuss the MCC at all?

20 MR. BRAUNSTEIN: Yes.

21 MR. SPEARS: Oh, yes, I'm sorry.

22 MR. BRAUNSTEIN: And then we'll just combine the
23 two in the resolution.

24 If you -- as you recall at the last Board
25 meeting we presented the MCC product, there were some

1 questions as it related to results of a survey that my
2 group in conjunction with Ken Giebel's group in
3 marketing seeking answers from localities and
4 municipalities. Just as a reminder, the MCC program
5 gives a borrower a 20-percent tax credit based on their
6 mortgage insurance paid. That MCC won't be exclusive to
7 CalHFA. We have to offer it statewide if we do offer an
8 MCC program, and it must be used without a bond -- bond
9 funding.

10 The thought process of the product would be that
11 the MCC would be a great additional value-add to our
12 borrowers and to our lenders to attach to our FHA
13 product. On this particular FHA product, it will be
14 non-bond funded. It will be a capital market funded
15 loan, as we mentioned at the last Board meeting, and the
16 combination would be a valuable product to the borrower
17 and the lender.

18 If the MCC is attached to our first mortgage FHA
19 product, we are considering to waive the processing fee
20 of \$500 for the MCC, hence another value benefit to the
21 lender and borrowers using our product because of the
22 way we're waiving the \$500.

23 Again, because we have to offer it to all of our
24 lenders and to statewide, if we receive other MCC
25 requests, and I certainly anticipate us doing so, that

1 will be 500 per MCC that we issue. So we're not going
2 into this product as a revenue generator just for the
3 MCCs because this is going to take a lot of my staff's
4 operation time in reviewing the MCC for its credit
5 availability, but the idea would be to combine it into
6 the benefit of having a CalHFA FHA first mortgage along
7 with the MCC. Another way for our lenders to think
8 twice about or think first of CalHFA for a mortgage loan
9 for their borrowers that are low and moderate income
10 because of our now wider product menu of FHA, FHA with
11 an MCC, the \$500 being waived on that MCC, and the
12 conventional product as well, so that they can make a
13 very nice comparison of what's the best product and
14 what's the best way that's suitable for the borrower's
15 eligibility.

16 ACTING CHAIRPERSON CAREY: Jack.

17 MR. SHINE: Did I hear you that you get a tax
18 credit in an amount equal to 1 percent?

19 MR. BRAUNSTEIN: No. 20 percent of the mortgage
20 insurance -- the mortgage interest that's paid.

21 MR. SHINE: 20 percent.

22 MR. SPEARS: 20 percent.

23 MR. BRAUNSTEIN: It's an income tax --

24 MR. SPEARS: It's an income tax credit --

25 MR. BRAUNSTEIN: -- credit to the borrower.

1 MR. SPEARS: -- to the borrower.

2 MR. SHINE: Is it a tax credit or a write-off?
3 Is it a deduction or --

4 MR. BRAUNSTEIN: No, it's just a tax credit to
5 the borrower.

6 MR. SHINE: And how much is the tax credit for,
7 please?

8 MR. BRAUNSTEIN: 20 percent.

9 MR. SHINE: Of what?

10 MR. BRAUNSTEIN: Of the insurance paid -- the
11 mortgage interest. I'm saying insurance, I'm sorry.
12 The mortgage interest paid on an annual basis.

13 MR. SHINE: So you get 20 percent of the
14 mortgage interest you pay --

15 MR. BRAUNSTEIN: Interest.

16 MR. SHINE: -- on your tax return as a credit of
17 the taxes due.

18 MR. BRAUNSTEIN: Right.

19 MR. SHINE: Tax credit.

20 MR. BRAUNSTEIN: Right. And what lenders do
21 when they're --

22 MR. SHINE: That's a terrific -- why didn't you
23 say that before? That's a terrific reason for people to
24 use this product.

25 MR. BRAUNSTEIN: Well, I'm sorry, I thought I

1 did. We presented it that way at the last Board
2 meeting, and I didn't want to be redundant.

3 MR. SHINE: I missed the last two meetings.

4 MR. BRAUNSTEIN: But you're absolutely right.
5 And what lenders do -- I'm not sure if I added it. In
6 fact I did. It's the third bullet. What lenders will
7 do is they'll -- they know that there's a tax credit
8 available to the borrower for having an MCC. And what
9 they'll do is they'll -- they'll sometimes add that
10 credit savings to the borrower's income. That
11 enables -- to help them have a slightly more increased
12 income to -- to be more eligible for potentially a
13 higher priced house. They still have the debt service
14 for the loan at the -- at the -- at the lender's, you
15 know, qualifications or our qualifications, but it
16 gives -- it gives a borrower just greater buying power
17 for a home purchase because of the tax credit a lender
18 is adding to their income.

19 MR. SHINE: That's about 3,000 a year.

20 MR. SPEARS: It's -- it is a good program. It
21 is offered around the state in, you know, localities.
22 It's not offered on a statewide basis, so when we
23 brought this up at the May Board meeting, Jack, there
24 were some questions about, well, are we going to, you
25 know -- we have a lot of partners that are local

1 government entities that provide downpayment assistance
2 through our AHPP program, and, you know, are we going
3 crossways with anyone?

4 So I wanted Gary to let you know about the --
5 about the survey that went out and the results of that
6 so that you can get comfort level about, you know, our
7 relationships with our local government partners.

8 MR. BRAUNSTEIN: Thanks, Steve.

9 If you recall last Board meeting, we were -- we
10 hadn't yet -- we sent the survey out. We hadn't yet
11 gotten the respondents back, and so we did. We sent out
12 a survey of four questions asking the localities and
13 nonprofits that are part of our affordable housing
14 partnership program, about 350 programs, 150 localities,
15 the question that if CalHFA offered an MCC product,
16 would you have, you know, an issue with that on a
17 statewide, what restrictions, if any, were of concern to
18 you.

19 We had received 60 respondents from the survey
20 that we sent out. The majority of the respondents gave
21 no significant resistance, us offering the MCC product.

22 The further details of some -- some quotes and some
23 information that we got is they felt it was a very
24 positive incentive to be offered with our first mortgage
25 product and other first mortgage products. They also

1 felt that how we were providing a waiver of the -- of
2 the fee was another nice incentive for the borrower. I
3 think it was only less than 25 percent of the
4 respondents made any type of mention of resistance or
5 hesitation to us offering it on a statewide basis.

6 ACTING CHAIRPERSON CAREY: Claudia.

7 MS. CAPPPIO: Of that 25 percent, what were some
8 of the specific concerns?

9 MR. BRAUNSTEIN: I'm trying to recall.

10 MR. SPEARS: I think --

11 MR. BRAUNSTEIN: I'll have to come back with
12 some comments on that. I don't have the -- I don't have
13 the responses here, but if I recall in my initial review
14 there wasn't a -- it wasn't a significant poignant
15 concern.

16 MR. SPEARS: The main concern is that it would
17 have a negative impact on their program. They would
18 have fewer applications.

19 MS. CAPPPIO: For MCC.

20 MR. SPEARS: For MCC in their localities.

21 MS. CAPPPIO: So if that's the case, in those
22 localities, can we work with them not to be at
23 cross-purposes?

24 MR. SPEARS: Absolutely.

25 MS. CAPPPIO: Just to be mindful of that, given

1 it's the same program.

2 MS. CRESWELL: Yeah, and that was my question is
3 just are there ways to mitigate the impacts of doing the
4 program in the communities that are already doing it?
5 Because I do think it's -- 25 percent is not a small
6 amount when you're talking about something that they
7 might take very seriously. And so are there ways to
8 address those concerns and limit --

9 MR. SPEARS: There could be.

10 MR. BRAUNSTEIN: We could actually reach out to
11 all of our affordable housing partner localities and
12 nonprofits and ask them the specific question, "Are you
13 offering an MCC product?" And if not, then we'll be
14 able to capture either that MSA or those counties that
15 they service perhaps --

16 MS. CRESWELL: Can you limit --

17 MR. BRAUNSTEIN: -- restrict --

18 MS. CRESWELL: -- the market? I mean does it
19 have to be statewide? Could you do it all places that
20 it's not currently being offered?

21 MR. SPEARS: That's what we've talked about
22 before, is that we would -- we would offer this on a
23 statewide basis where it's not already offered, and then
24 that would -- that would eliminate this sort of -- this
25 sort of thing. We haven't had any objection from legal

1 counsel yet, but it would make it effectively MCC is
2 offered in California on a statewide basis, some by
3 locals, the rest by the State.

4 MS. CAPPPIO: We'll be coordinating.

5 MR. SPEARS: Right. Right.

6 ACTING CHAIRPERSON CAREY: Other questions?

7 This -- then before we take action, I'm going to
8 ask if there's anyone in the audience who'd like to
9 comment on this matter.

10 Seeing none, is there a motion from the Board?

11 MR. SHINE: I'll move --

12 MR. HUNTER: I move adoption of Resolution
13 11-09.

14 ACTING CHAIRPERSON CAREY: Can we take that as a
15 second, then?

16 MR. SHINE: Yes.

17 ACTING CHAIRPERSON CAREY: Okay. Roll call,
18 please.

19 MS. OJIMA: Ms. Creswell.

20 MS. CRESWELL: Yes.

21 MS. OJIMA: Mr. Gunning.

22 MR. GUNNING: Yes.

23 MS. OJIMA: Mr. Hunter.

24 MR. HUNTER: Yes.

25 MS. OJIMA: Ms. Carroll.

1 MS. CARROLL: Yes.

2 MS. OJIMA: Mr. Shine.

3 MR. SHINE: Yes.

4 MS. OJIMA: Mr. Smith.

5 MR. SMITH: Yes.

6 MS. OJIMA: Ms. Peters.

7 MS. PETERS: Yes.

8 MS. OJIMA: Mr. Carey.

9 ACTING CHAIRPERSON CAREY: Yes.

10 MS. OJIMA: Resolution 11-09 has been approved.

11 ACTING CHAIRPERSON CAREY: Thank you, Gary.

12 MR. SPEARS: Thank you, Board members.

13 MR. BRAUNSTEIN: Thank you.

14 --oOo--

15 Item 5. Discussion, recommendation and possible action
16 regarding the approval of compensation of certain exempt
17 management in accordance with Health and Safety Code
18 section 50909(a) (Resolution 11-10)

19 ACTING CHAIRPERSON CAREY: Okay. Item 5.

20 MR. SPEARS: Item 5, Board members, is being

21 brought to you because we have two vacancies at the

22 senior level that Claudia's been working with the

23 Governor's Appointment Office to fill. There is a

24 handout, and copies been made for the public that

25 describes what we believe is, you know, a consolidation

1 of all the resolutions that have been passed on senior
2 executive compensation, I believe it was in early 2007.

3
4 Originally, there was a survey that was
5 conducted. A compensation committee was established.
6 They brought recommendations with regard to the survey,
7 and the survey contained salary ranges. Once the ranges
8 were adopted at the January Board meeting, then specific
9 compensation levels were adopted.

10 For a variety of reasons, at the March Board
11 meeting, the ranges were done away with and salary caps
12 were established. There's one exception, and that is
13 the salary cap originally for the director of
14 multifamily was 190, and when the current director was
15 brought onboard, that was raised to accommodate the
16 salary that's at that level.

17 So -- so I believe that what you have here is
18 what the Board has decided to do in the past. So the
19 question, of course, is why are we bringing this up
20 again? We're doing this just to clarify that for the
21 two positions that are being filled -- the director of
22 homeownership and the chief information officer, the
23 director of IT -- that the Board reaffirm these salary
24 levels so that we can inform through Claudia to the
25 Appointments Office what the salary levels would be for

1 those people that are being considered.

2 And that's the reason for the action. It is an
3 action item. There is a resolution there.

4 MR. GUNNING: I'm sorry, Steve, why do we need
5 to do this again?

6 MR. SPEARS: Considering the current --

7 MR. GUNNING: The shift by the State from cap --
8 to a cap from a range?

9 ACTING CHAIRPERSON CAREY: We are simply
10 reaffirming actions taken in the past, right?

11 MR. SPEARS: That is correct.

12 MR. GUNNING: Transparency.

13 MR. SPEARS: Transparency. Mr. Gunning, there
14 were a number of members who were not here at the time.
15 This offers the opportunity for people to ask questions
16 about the process and the levels. I don't have all the
17 answers to those questions because I was not privy to
18 some of that conversation, but it's an opportunity.

19 MR. SHINE: I move to approve.

20 MR. GUNNING: Second.

21 ACTING CHAIRPERSON CAREY: We have a motion and
22 a second.

23 MS. PETERS: Public comment.

24 ACTING CHAIRPERSON CAREY: If there's anybody in
25 the public who'd like to comment on this matter, please

1 **(Resolution 11-11)**

2 ACTING CHAIRPERSON CAREY: Okay. On to the next
3 item.

4 MR. SPEARS: Item No. 6, I'll need some
5 technical assistance, and I'll need Mr. Giebel.

6 For some time senior staff has discussed having
7 an employee recognition program that is specific to
8 CalHFA. There is a statewide program that's offered by
9 Department of Personnel Administration. They do have
10 regulation that permits state departments to adopt an
11 augmentation, if you will, to the program that's
12 offered. And we have been contemplating this for a long
13 time. We've established a committee. We've established
14 standards for the committee to consider. And we believe
15 that it meets all the requirements that DPA has
16 established to set one of these programs up.

17 I'll let Ken go through the goals and the
18 proposal itself. And just stop us anytime you have a
19 question about that. It is an action item. There is a
20 resolution for your consideration.

21 And just so we get this out of the way to begin
22 with, the -- it was felt by senior staff that this
23 contains monetary rewards, particularly for an annual
24 reward. Not large dollar amounts, but it does contain
25 awards that would be paid to recipients and that a Board

1 resolution is needed to adopt this so that we have the
2 correct amount of authorization when we send the warrant
3 over to the Controller's Office to ask that the warrant
4 be honored. So that's the reason for the resolution.

5 ACTING CHAIRPERSON CAREY: The proposed amount
6 is a total of \$3,000?

7 MR. SPEARS: Yes.

8 MS. CRESWELL: Annually?

9 MR. SPEARS: Yes.

10 MR. GIEBEL: And I can take you through how that
11 breaks down.

12 MS. CRESWELL: Can I just -- can I just ask is
13 it -- are you going to use the state system so would it
14 be in addition where you can do a \$500 award? So it's
15 in addition to the State's sustained superior
16 accomplishment? You would supplement that with this
17 amount?

18 MR. GIEBEL: That part needs to be clarified
19 because the level of our Tier III award, achievement
20 award, is at the state DPA level of \$500, so I don't
21 know if you would refer to that as double-dipping
22 because then we would submit it over to DPA for their
23 consideration and we would have already in our program
24 rewarded them. So I don't -- we would have to clarify
25 that. But our level is exactly the same for that award

1 level as the DPA level, so.

2 MR. SPEARS: Our concept is this is in addition
3 to whatever is offered otherwise by the State.

4 MR. SHINE: What is offered otherwise by the
5 State?

6 MR. SPEARS: They have a superior --

7 MS. CRESWELL: Sustained superior accomplishment
8 award that you can get annually, either \$250 or a \$500
9 award for meeting certain requirements.

10 MR. GIEBEL: And they have another program --

11 MS. CRESWELL: Yes.

12 MR. GIEBEL: -- where if there's -- I don't know
13 the exact name of it, but if you demonstrate that you've
14 made a significant savings, that you can get a portion
15 of that savings. And they have a name for that.

16 MS. CRESWELL: But that's --

17 MR. DIEBLE: That's separate from this.

18 ACTING CHAIRPERSON CAREY: Is the state program
19 widespread?

20 MS. CRESWELL: Um-hmm.

21 ACTING CHAIRPERSON CAREY: Used extensively?

22 MS. CRESWELL: Yes.

23 MR. SPEARS: It's available to any state
24 employee from any department. It's statewide. They're
25 not specific to, you know, any particular department.

1 ACTING CHAIRPERSON CAREY: Okay.

2 MR. SHINE: Do we use it a lot here in this
3 Agency?

4 MR. GIEBEL: Pardon me?

5 MR. SHINE: Have you used it a lot here in this
6 Agency?

7 MR. GIEBEL: No. This is just a proposal to
8 start a formal recognition program, and I'll take you
9 through a little bit of the background.

10 MR. SPEARS: But to answer your question, Jack,
11 to my knowledge, the statewide program has not been used
12 by very many departments.

13 MR. SHINE: Do we need a motion to be discussing
14 it?

15 ACTING CHAIRPERSON CAREY: Not yet.

16 MR. SHINE: Pardon me?

17 ACTING CHAIRPERSON CAREY: We have a staff
18 report on it.

19 MR. GIEBEL: Well, good morning.

20 We've been working on this -- we've been working
21 on this for about eight weeks now. We thought -- just a
22 little background. From time to time in the Agency's
23 history, there have been some recognition. We have
24 teams, oh, when we did the Fannie sale of the seconds,
25 that was done in four or five weeks. That team received

1 plaques at the annual State of the Agency. We
2 recognized those people who have milestones of service,
3 and there was kind of an informal thank you note program
4 with what's -- with the expansion of the Agency, the
5 staff being inundated with project after project over
6 the last four years and actually being stretched because
7 of the hiring freeze, we thought it was time that we
8 actually said thank you to people at different levels.
9 So this is really intended to provide staff with a
10 flexible yet meaningful method of acknowledging to their
11 colleagues and staff for superior and outstanding
12 contributions to the Agency and the end result being
13 quality and productivity and recognizing that.

14 What we're proposing is a three-tier program.
15 The first is what we're calling colleague to colleague.
16 It's simple. It's providing staff with a way of saying
17 thank you to their colleagues, promoting feedback, and
18 it's employee to employee at any level. It's simple,
19 and it's direct.

20 Then Tier II is either an employee or a team,
21 and it's a formal written recognition presented to the
22 employee or the team from the director, supervisor, or
23 manager. In addition to the written recognition, it
24 will -- there will be a letter that goes in their
25 personnel file, and it will be accompanied by a small

1 gift card, so in other words, a small Visa card or a
2 Starbucks card or something like that, a couple of
3 lattes, I think. So that's Tier II.

4 Tier II kind of rolls into Tier III in that this
5 is the annual achievement award. And the directors will
6 present their nominees, and we have to set up a
7 committee to run this. That's one of the things from
8 DPA. And they will review the documentation and select
9 the winning individuals, and Claudia will get to see all
10 those and confirm those.

11 In addition to an award, a certificate will be
12 sent to their personnel file, and either the individual
13 or the team as a whole will qualify for the \$500 award.

14 So if there's five team members, they get a hundred
15 dollars a piece. The highest recognition level will be
16 presented at the State of the Agency for the previous
17 fiscal year. We would take those and pass them on to
18 DPA to see if they would qualify for their awards.

19 We have set up criteria and procedural
20 guidelines on how this works at every level. And what
21 we've tried to build in is enough flexibility so the
22 division managers have enough flexibility to customize
23 this or work with it to meet their individual needs.
24 The financing department, our accounting department,
25 financial services, has a lot of people and they work in

1 teams, so it has to be flexible enough to work on that
2 level as well.

3 Exempt employees, those are the Governor's
4 appointees, are exempt from Tiers II and III. And right
5 now we're in the process of branding the program and
6 doing the creative for this, and we'll have ready it
7 next week.

8 Tier I is 15 -- Tier II is \$1500. Those are the
9 small rewards. We worked to the formula and how many we
10 thought that would be and broke it down by division, and
11 needless to say we're going to have a pool of money,
12 \$1500, you know, see how that works. And then we have
13 budgeted for obviously three \$500 prizes.

14 So what we're asking for is approval to proceed
15 with this so we can get this in the system and that
16 Claudia can announce this at the State of the Agency in
17 mid-August and kick it off for this fiscal year.

18 ACTING CHAIRPERSON CAREY: Any questions?

19 Jack.

20 MR. SHINE: Is it enough?

21 MR. GIEBEL: We think it is enough, yes. It's a
22 starting point.

23 MR. SHINE: Are you satisfied that it should not
24 be increased?

25 MR. GIEBEL: Well, the level is -- you can't go

1 above \$5,000, so that's just -- that's the -- that's the
2 ceiling, so we're --

3 MR. SHINE: You can't --

4 MR. GIEBEL: -- three-fifths of the way there.

5 MR. SHINE: -- go over \$5,000 for what?

6 MR. GIEBEL: For your recognition program.

7 MR. SHINE: In its entirety?

8 MR. GIEBEL: Yes.

9 MR. SHINE: Do you think we need to make it
10 5,000 instead of 3,000?

11 MR. SPEARS: To answer your question, Mr. Shine,
12 no. Given the efforts of the employees of this Agency
13 in the last three years to deal with everything they've
14 dealt with, you know, they get huge kudos, and they
15 should get performance bonuses for keeping us afloat.

16 But given the -- given the requirements of the
17 State, we thought that modest but specific recognition
18 was a good idea, and we're trying to keep it within our
19 budget constraints.

20 MR. SHINE: Fine. Thank you.

21 MR. GUNNING: Does -- does the Agency fall under
22 the State's whistle-blower program? Is there a way for
23 employees to --

24 MR. SPEARS: Yes. I believe we just sent a
25 memo, the annual notification from the director. This

1 is available to anybody, if you see anything you want to
2 blow a whistle about, you know, about three weeks ago.

3 ACTING CHAIRPERSON CAREY: This is a moment
4 we'll ask for public input, if anyone would like to
5 comment on this proposal.

6 Seeing none --

7 MS. CRESWELL: So moved.

8 ACTING CHAIRPERSON CAREY: -- is there a motion?

9 MS. CRESWELL: So moved to approve the program.

10 MR. HUNTER: Second.

11 ACTING CHAIRPERSON CAREY: Moved and seconded.

12 Roll call, please.

13 MS. OJIMA: Thank you.

14 Ms. Creswell.

15 MS. CRESWELL: Yes.

16 MS. OJIMA: Mr. Gunning.

17 MR. GUNNING: Yes.

18 MS. OJIMA: Mr. Hunter.

19 MR. HUNTER: Yes.

20 MS. OJIMA: Ms. Carroll.

21 MS. CARROLL: Yes.

22 MS. OJIMA: Mr. Shine.

23 MR. SHINE: Yes.

24 MS. OJIMA: Mr. Smith.

25 MR. SMITH: Yes.

1 MS. OJIMA: Ms. Peters.

2 MS. PETERS: Yes.

3 MS. OJIMA: Mr. Carey.

4 ACTING CHAIRPERSON CAREY: Yes.

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

6 ACTING CHAIRPERSON CAREY: Thank you, gentlemen.

7 MR. GIEBEL: Thank you.

8 --oOo--

9 **Item 7. Update and discussion regarding the status of**
10 **the U.S. Treasury's New Issue Bond Program and the**
11 **Temporary Credit and Liquidity Program**

12 ACTING CHAIRPERSON CAREY: Item 7, an update on
13 the New Issue Bond Program and the Temporary Credit and
14 Liquidity Program.

15 MR. SPEARS: To be perfectly honest,
16 Mr. Chairman, I thought we would have some news on this
17 at this point, which is the reason we agendized it. It
18 is -- it being the extension, particularly, of the TCLP
19 program is of particular concern to the rating agencies,
20 particularly Moody's. We have applied specifically for
21 an extension of TCLP, and we have not heard word back on
22 that. We know that it's being discussed at a very high
23 level at Treasury, and the discussions are ongoing. And
24 we are having discussions between Bruce and Claudia is
25 in discussions with folks at Treasury, so we're actively

1 pursuing this. I just thought I would give Bruce an
2 opportunity to give you a little more detailed update.

3 MR. GILBERTSON: Thanks. Good morning, Members
4 of the Board.

5 I just want to make one correction I noticed as
6 I was reviewing the report this morning. The first
7 paragraph under status of the program, so I think that's
8 page 141 in your Board binder, about six lines down
9 where it has a number \$96 million, that number actually
10 should be \$144 million of single-family proceeds used to
11 finance the next lines.

12 So I thought I'd just give kind of a
13 comprehensive overview of the programs. Remember, these
14 initiatives were sponsored by the federal government,
15 specifically the U.S. Treasury Department, both Fannie
16 Mae and Freddie Mac, in the fall of 2009. We had been
17 instrumental in having conversations with those parties
18 during the course of 2009.

19 Ultimately, CalHFA received an allocation of
20 approximately \$5 billion. \$1.4 billion of that
21 allocation fell under the program that they called the
22 New Issue Bond Program. We received \$380 million for a
23 multifamily program and just over \$1 billion for a
24 single-family program. All of this was available to get
25 both state and local HFAs back into the lending

1 business. Because of the market disruptions, we just
2 didn't have a capital source to finance any lending.

3 Currently the NIBP program is scheduled to
4 expire at the end of this calendar year, on
5 December 31st. And you might remember that we updated
6 you about a year ago this time that it was extended by a
7 year because the original expiration date was at the end
8 of 2010.

9 TCLP, we received an allocation of \$3.5 billion.

10 Okay. TCLP, again, is the Temporary Credit and
11 Liquidity Program. It's an enhancement to variable-rate
12 bonds that existed at the time, back in October 2009.
13 We had \$3.5 billion outstanding. We elected to replace
14 all of the liquidity that we had supporting those VRDOs
15 in 2009.

16 That program is scheduled to expire in December
17 of 2012, so, you know, not quite a year and a half from
18 now. And as Steve pointed out, Moody's asks every time
19 we have a conversation, "What are your plans to mitigate
20 that expiration date?"

21 And I said, "Shouldn't you focus on the United
22 States government and their credit ceiling or their debt
23 ceiling that's coming?"

24 And they have, by the way. They have put 7,000
25 municipal credits on credit watch because they have

1 support from the federal government in one way, shape,
2 or form.

3 So anyway, so the status of where are we. Now
4 we're a little more than a year and a half into this,
5 you know, both programs. I thought I'd run through both
6 programs, tell you how much we've used and how it has
7 benefited the Agency.

8 So as of June 30, 2011, in our multifamily New
9 Issue Bond Program, 193 million of the 380 has been
10 used. We've provided financing for 20 affordable rental
11 projects. We have plans to use the balance during the
12 course of the calendar year, and it's going to be used
13 in two forms, some additional new lending for a handful
14 of projects. One of them is a very large -- I think
15 it's 75 or \$80 million financing, and \$90 million is
16 going to be used to assist us in restructuring our debt
17 again.

18 One of the program parameters for NIBP is that
19 we could use it to do a fixed-rate bond re-funding of
20 the variable-rate bonds that existed back in 2009. This
21 has been part of our strategy all along. So we're
22 actively working on improving the asset quality so that
23 certain multifamily loan assets would be eligible for
24 this fixed-rate re-funding. We hope to, you know,
25 probably give you another update on that program at the

1 September Board meeting and closing in late November or
2 December.

3 On the single-family program then, we've used
4 144 million of our \$1 billion under the New Issue Bond
5 Program. That's been in two transactions. We closed
6 one bond financing last December. We closed another one
7 in May of this year. There's a report in the back of
8 the binder describing that financing.

9 Unfortunately, we aren't going to be able to use
10 the remaining whatever that is, 850 million. It's more
11 likely between now and the end of the calendar year we
12 will use 50 to \$75 million. We probably will have one
13 or two more financings before the end of 2011. So
14 approximately 800 million we'll go and use, if there
15 isn't an extension of the program or some other
16 modification of that program.

17 Let's jump back over to TCLP, and I'll give you
18 a quick status on how we've been able to use those
19 moneys.

20 MS. PETERS: Before you jump ahead --

21 MR. GILBERTSON: Sure.

22 MS. PETERS: -- what was the problem getting it
23 out? Lack of demand or --

24 MR. GILBERTSON: Well, initially a lot of
25 this -- one of the problems that HFAs have been facing

1 for several years now is that the federal government
2 support of the mortgage market in general. So as they
3 buy mortgage securities, they lower rates, and then we
4 don't have a rate to compete against the private sector.
5 And the value of tax exemption just doesn't really
6 present itself. The original NIPB program, they gave us
7 a rate lock, if you will, but then rates dropped, so the
8 rate lock was out of the money. It didn't help. They
9 reset that last October, which allowed us the
10 opportunity to really make some traction.

11 So on TCLP, again, by January of 2010, we had
12 put all of that money in place. We had replaced all of
13 the liquidity facilities that we had from private sector
14 banks, and I think we reported that back to you in
15 January of 2010.

16 As of August 1, a little more than a week from
17 now, our utilization of TCLP will have fallen from 3.5
18 billion to 2.8 billion, so we reduced our support level
19 by some \$700 million. The most impressive thing,
20 though, is the performance of the underlying bonds
21 supported by the TCLP over the last 16 months.

22 So these are bonds that have a weekly interest
23 rate reset. Every -- every week we're getting a new
24 interest rate reset. The most recent resets have
25 averaged .04 percent, four basis points. Over 16 months

1 of the program, they have averaged 24 basis points.

2 Pardon me.

3 The way we measure the success of that program
4 is we compare it to basis mismatch, and I know a number
5 of the Board members have heard lengthy presentations by
6 Tim Tsu and myself about some of the financial
7 challenges that we faced over the last couple of years,
8 and basis mismatch was a big component of that. As an
9 example, during calendar year 2009, our basis mismatch
10 amounted to \$30 million on our hedged variable-rate
11 demand obligations. So we paid an additional \$30
12 million in interest expense in one calendar year.

13 In the 16 months since TCLP has been in place,
14 the basis mismatch has turned positive to the Agency,
15 and we have benefited to the tune of two or three
16 million dollars over that time frame. So those are
17 numbers that you need to add together. So the
18 cumulative benefit will -- for CalHFA is approximately
19 \$35 million. So it's extremely valuable to us, and one
20 of the reasons we're pushing so hard for an extension.

21 There's a number of proposals underway, and I'm
22 just going to wrap up by summarizing what I know today.

23 And as Steve pointed out, there is no news or an
24 official announcement to report. You know, my sense --
25 and Claudia, I haven't had a chance to catch up with her

1 today -- is now it may seem like it's a September thing
2 or maybe an October thing. And I'll let Claudia comment
3 as I just run through the proposals.

4 But for NIBP, one of the proposals from both
5 state and local housing agencies and their lobbyist
6 groups is to extend the program beyond 2011, you know,
7 add another year. Clearly we're going to have at least
8 \$800 million available. Why not just tack another year
9 on it and let it run to 2012?

10 The other option is to modify the program and
11 perhaps extend it and allow some of that single-family
12 money to be used for multifamily purposes. And we've
13 been an advocate in California of trying to do some of
14 those things here.

15 And then a third proposal that has some
16 traction, it's very hard to gauge how Treasury and the
17 federal government feels about this, is that there may
18 be a second round of NIBP, a new funding source, derived
19 somehow, and there's several different ideas on that,
20 that could be available to, again, assist HFAs, both the
21 state and local level, over time.

22 And then the big one on TCLP, there was a much
23 smaller group of HFAs that participated in that. I
24 think the report says 11, if I'm not mistaken.

25 MR. SPEARS: Right.

1 MR. GILBERTSON: It's simply an extension, you
2 know, and we have pushed hard for a five-year extension.
3 That means the TCLP would be in place through 2017. By
4 2017 we're going to know an awful lot about that
5 single-family loan portfolio that is causing the pain.
6 Because the last loan finance of that indenture was done
7 in 2008, so there will almost be ten-year seasoned. The
8 borrowers that are going to pay are going to continue to
9 pay. Those that have gone to foreclosure will have been
10 settled by then, claims will have been paid, and we will
11 know where we sit.

12 So -- so we end up with that request. There's a
13 lot of conversation. Tim Tsu and my staff and several
14 others in the financing division have provided some
15 detailed analysis for them to compare options. We're
16 working with both Treasury and their advisor, State
17 Street, in trying to get them, you know, all the
18 information they think is necessary. We're hopeful. We
19 think they really want to make this work for CalHFA and
20 have this benefit to our balance sheet and our financing
21 programs.

22 So with that, I think we're a month or two off.
23 I'm not sure if Claudia has any further update from some
24 of her sources on that.

25 MS. CAPPPIO: I was at the NCHSA conference

1 earlier in the week, and that is consistent with what
2 you're saying. Unfortunately, timing is everything, but
3 I would have much rather had this announcement behind
4 us, but it's not, and I understand the distraction at
5 the moment. But it would be great if it was September,
6 not October. The sooner the better for us, but they all
7 know that. And I think the -- I just want to reiterate
8 that our staff has been working very closely and very
9 positively with Treasury, and we are expecting good
10 news, but I also know the political landscape out there.

11 MR. SPEARS: I would be a little more nervous if
12 we were not hearing anything from Treasury, if they were
13 just not -- but they seem to be actively discussing it
14 within the halls of Treasury, so I'm encouraged by that,
15 but I'm not ready to make an announcement for that.

16 But remember when we put this together back in
17 2009, it went from July to August to September to
18 October, and, you know, it just seemed to go on and on.

19 And it just takes a long time for those kinds of
20 decisions to be made.

21 ACTING CHAIRPERSON CAREY: It takes patience.
22 Thank you.

23 --oOo--

24 Item 8. Update and discussion regarding the Keep Your
25 Home California program

1 ACTING CHAIRPERSON CAREY: Okay. Next is the
2 report on Keep Your Home California.

3 MR. SPEARS: So, Mr. Chairman, Members, if you
4 recall, the last time you were discussing that we were
5 about to go out with a marketing plan. That's been
6 implemented. Di and I and Claudia thought it would be a
7 good time for a pause, how are we doing with this.
8 There's been other developments that I'll let Di
9 discuss, but just an update for you at this time.

10 MS. RICHARDSON: I'll give Steve the buttons. I
11 always mess that up.

12 Good morning, Members. Just a fairly brief
13 update, although I can't possibly tell you everything
14 that's an update because this seems to be all I do,
15 live, breathe, sleep, eat.

16 You know, we have our four core programs. Those
17 are out. They're performing very well. I'll give you a
18 little bit of an update on those as we move into the
19 program. The big -- one of the big news items from my
20 perspective is that Treasury has finally signed off on
21 our three proposals for the Innovation Fund. There's
22 the one proposal by the Los Angeles Housing Department,
23 which most of you are very well aware of as they have
24 been here several times. That is a first mortgage
25 modification program.

1 The second program is from the Sacramento
2 NeighborWorks Organization, and it's a short sale
3 gateway program. We had several -- several proposals
4 offering lease-to-own scenarios. I'll talk about that a
5 little bit more in a moment. But the Sacramento
6 NeighborWorks proposal was the most cooked of all of
7 them that we had. They had several of the key
8 relationships already in place, and so we felt that that
9 one would have -- is the best one that -- for us to take
10 a look at and take a look and see how it works.

11 The third program is the Community HousingWorks,
12 which is in San Diego. And this is a program that will
13 help get rid of second or subordinate mortgages that
14 don't qualify under the federal Making Home Affordable
15 Program.

16 So we have -- we have finalized our contract
17 with -- with CHW, and we're working with the other two
18 to get those finalized. And I'm working with Treasury
19 to finalize -- this will require a new contract with
20 Treasury because it's an amendment of our existing
21 contract. And I have the draft of that back from them,
22 so that -- they usually -- they're shooting for the end
23 of the month to get that done.

24 So you may recall that when we originally set
25 out our allocations for the program, even though we knew

1 we were going to be funding the local innovative
2 programs, we had to include all of the funding within
3 our four core programs to start out because we needed to
4 have that money allocated to us by October 1st. And
5 then our plan was always that once we have the
6 innovative programs approved, we could go back in and
7 sort of redistribute the funds and take a look at what's
8 going on.

9 So those funds -- this is -- this slide
10 demonstrates how those funds have been redistributed
11 based on our -- what we've worked out with Treasury.
12 And you can see that basically, you know, we took that
13 money out of the Principal Reduction Program. That was
14 always our intent.

15 And there -- you know, the San Diego Community
16 HousingWorks Program is going to be about 10 million.
17 The other two are going to start with 5 million. Again,
18 if they're wildly successful, we're more than happy to
19 take a look at, you know, giving them more funding in
20 the future, but we think that that's a good place to
21 start. And this also talks about the number of units
22 that we think will benefit from these funds.

23 So just to give you a little more information,
24 the Los Angeles Housing Department Mortgage Modification
25 Program, again, this is something that they came in and

1 talked to us about several times early on. The program
2 has morphed a little bit. You know, each time we talk,
3 it sort of morphs. But what we have agreed to with
4 them, this is a program that they're going to pilot
5 within the city of Los Angeles within existing NSP
6 neighborhoods. And they believe that they can do, you
7 know, principal reduction between 6 and 21 cents on the
8 dollar, and I hope they're wildly successful. I'm
9 looking forward to seeing those results.

10 You know, we've talked in the past about they
11 have a pilot program with Bank of America, which Bank of
12 America had given them a million -- committed a million
13 dollars. And to my knowledge they haven't done any
14 loans under that program yet. That would be separate
15 than this.

16 The -- again, these -- because we want to judge
17 the efficacy of these programs compared to those that we
18 proposed, homeowners that qualify for those programs
19 will not also be using the Keep Your Home dollars. They
20 will be completely separate so that we can, you know,
21 keep track of who's getting what.

22 The second program, the Sacramento NeighborWorks
23 program, so this will -- these funds are going to be
24 used as an incentive to lenders to get them to do a
25 short sale. Sacramento NeighborWorks will buy the

1 property and lease it back to the existing homeowner, so
2 the homeowner won't be -- have the disruption of being
3 moved. The community, the neighborhood, won't have that
4 much -- have that -- have that disruption of having an
5 empty home.

6 And the homeowners have to qualify for the
7 program at the time the short sale is approved, and they
8 have to qualify again for the program. They have to
9 qualify to repurchase the home at the end of the period.
10 And there are several educational steps and things that
11 they have to do and go through to earn the -- the
12 privilege of buying back the home.

13 So the compensation to the lender is going to be
14 they're targeting 20 percent of the negative equity, and
15 it cannot -- under the contract it won't be able to
16 exceed 80 percent of the unpaid balance, but it also
17 won't exceed \$45,000 per home.

18 So we're -- this is one -- like I said, we had
19 several lease-to-own proposals, and this one seemed the
20 best cooked, and they had an existing relationship with
21 the credit unions, and so it looks like it's ready to
22 go.

23 The third program, the Community HousingWorks
24 Second Mortgage Program, they're going to provide
25 capital, 35/65 percent match, to participating community

1 lenders. Again, these are lenders that are not
2 participating in the federal program, so they can't take
3 advantage of the -- the HFAFA program to otherwise
4 extinguish these seconds.

5 We signed this contract. I think I just signed
6 it last week, and they've already got nine servicers --
7 eight servicers signed up. We asked that they have nine
8 servicers signed up within three months, and they've
9 already got eight onboard, so they're rocking and
10 rolling and really ready to go on this one.

11 So the next slide talks about -- I'm sorry, I
12 have a bunch of pages stuck in between all mine -- the
13 servicers currently participating. We're actually up to
14 29 this morning that are currently participating. The
15 newest onboard, Central Mortgage, Colonial Savings,
16 Capital Mortgage. I also have four that have sent me
17 partial documents. I'm trying to get those last few
18 signatures that I need to get them onboard. Those
19 include PHH First Mortgage, IBM, LBPS and Midland. And
20 those -- we get a lot of calls for IBM, so I think those
21 are -- and PHH. Those are pretty big for us.

22 We also have four that are currently in what we
23 call the onboarding process, meaning they've -- I've got
24 all their documents. We've got everything signed.
25 They're going through the final training. They'll be

1 live on the Web site within the next week or two. That
2 includes I-Serve, Specialized Loan Servicing, HSBC, and
3 Cenlar. And we're really excited about Cenlar because
4 Cenlar is a really big subservicer for a lot of the
5 credit unions, and so we see a lot of those guys just
6 now are going to start coming onboard.

7 The final bullet here that I want to highlight
8 is the Bank of America PRP participation. I think we
9 talked about at the last meeting the fact that we --
10 that Bank of America is signed on for the Principal
11 Reduction Program. We started with them in a pilot mode
12 where they were controlling the process. They --
13 instead of borrowers calling our central processing
14 center and getting referred through, you know, and then
15 going to Bank of America, Bank of America wanted to sort
16 of get a handle on the flow and how it worked, so they
17 were referring them up.

18 Bank of America is only doing the Principal
19 Reduction with HAMP modifications. So every borrower
20 that comes in that's -- that's qualified for a HAMP
21 modification is supposed to be also looked at for their
22 compatibility with the Principal Reduction Program. We
23 did that with -- we did the model, the pilot, with them
24 in that fashion for about six weeks, and they sent us
25 six files.

1 We have now opened what we call the retail end
2 of it where we can now refer borrowers to them. We do
3 some of the front-end work. It still works a little
4 different than a lot of the other programs because what
5 we're telling those borrowers is, okay, we're going to
6 let Bank of America know that we think you're qualified
7 for this program. They're going to be sending you a
8 modification packet. Open it. Fill it out. Send it
9 back. And so we've sent them between 40 and 50 files
10 just in the last week and a half. So we think,
11 obviously, that -- we're hoping to see some bigger
12 numbers starting to come out of that.

13 We've got a press release that we're -- I'm
14 waiting for Bank of America to finish commenting on so
15 that we can make a really big announcement, but they are
16 live on our Web page. And, you know, we're excited
17 about that.

18 We are also starting to have some conversations
19 with Wells Fargo and Chase. I wouldn't say we're
20 exactly close, but we're having some conversations.

21 My conversations with Treasury, you know,
22 there's this whole big settlement that's sort of being
23 discussed and up in the air, and that might be pushing
24 them to start looking at participating in our programs a
25 little bit more. I'm fine with that. I'll take them

1 however I can get them, I just want them in the door.

2 The next page is our -- some of our production
3 statistics. And the second quarter ended June 30th, and
4 at that time we had funded over 1,000 homeowners,
5 assistance to over a thousand homeowners, which we were
6 really excited about. That was a big milestone for us.
7 We're one of only four states that have hit that
8 thousand-homeowner mark. You'll remember that some of
9 the other states had existing unemployment programs that
10 they just added these funds to, so they were -- they
11 were sort of up and rocking and rolling a little bit
12 sooner than us.

13 So just to sort of explain what this -- what
14 these numbers mean, obviously the funded dollars, those
15 are funds that have actually gone out the door,
16 committed, you know. Some of the -- especially under
17 the unemployment program, those are funded over six
18 months, those payments. So you can see the total
19 dollars committed, scheduled for disbursement for the
20 total there.

21 I would also like to just verbally give you
22 another set of numbers. When a borrower, a homeowner,
23 calls in and -- if you remember, they go through triage,
24 then they go through the counseling program. And once
25 they successfully complete that counseling, we reserve

1 funds for them until we find out that either they don't
2 really qualify or they withdraw.

3 So just going by the actual reserved numbers, we
4 have funds reserved for over 1100 additional UMA
5 households for 20 million; 352 additional PRP households
6 for 17 million; over 2400 mortgage reinstatement
7 households for 36 million; and TAP, which we haven't
8 really focused on a whole lot, quite frankly, and, you
9 know, everybody is trying to -- the banks and us are
10 working on trying to keep people in their homes rather
11 than pay them to move out -- we have 25 of those
12 reserved for \$125,000.

13 So what we've seen, quite interestingly in the
14 last month is that -- and it's -- you can see by the
15 HAP, the numbers here, we're getting a lot more people
16 calling and participating in the mortgage reinstatement
17 than the unemployment program. The mortgage
18 reinstatement has sort of taken -- taken the lead. That
19 horse is out in front at the moment.

20 This -- this chart just demonstrates those where
21 we have completed the homeowner action plans. Again,
22 this is where counseling has been complete. This --
23 these are the top ten counties where -- you know, we're
24 monitoring not only where the calls come from, but where
25 things are successful. These are -- these are the

1 completed homeowner action plans.

2 And the next one actually shows you where we've
3 actually provided assistance. And so you can see
4 there's a lot of the same counties. They're -- you
5 know, there's a little moving around in there, but we
6 still think that these are sort of the top ten at the
7 moment.

8 So marketing has been a very large focus the
9 last couple months. I'm beginning to feel like the Keep
10 Your Home California madam. We have hired a community
11 outreach manager. His job is specifically to go to
12 events -- big, small, medium, I don't care, churches,
13 fairs, foreclosure prevention events -- and just talk to
14 people and get the word out about the Keep Your Home
15 program. You know, we're finding that people need to
16 hear about these in their own communities from somebody
17 that they trust, and so that's really what we're
18 focusing on.

19 We did produce two PSAs, two 30-second PSAs.
20 They're playing on the radio statewide and on television
21 in Sacramento, Los Angeles, and San Diego. They're on
22 our Web site, if you haven't seen them. They're
23 fabulous. They're on the resources section of our Web
24 site. And, you know, we've spread the word about those.
25 I'll talk about that a little bit more.

1 We have -- in addition to those PSAs, we've
2 purchased traffic sponsorships throughout the state.
3 You know, this traffic report is brought to you by Keep
4 Your Home California. And, actually, that's the thing
5 people seem to hear the most, you know, so we're --
6 we're -- we're -- I think sometimes -- somebody told me
7 they heard one introducing a sports report the other
8 day. That was just sort of a bonus for us.

9 We are really trying to -- we're trying
10 different things in different areas and trying to
11 measure the success so we can figure out what works the
12 best so we know where to put our money. We've got
13 billboards going up next week in Stockton and Merced, in
14 English and in Spanish. We did a mass mailing to every
15 city manager, county CEO, and legislator, again, telling
16 them about the program, asking them to put the button
17 on -- you know, the Keep Your Home California button on
18 their page. Several of them have linked the PSAs on
19 their page.

20 Several of them have called me back and told me
21 that they have community access channels, and they want
22 to play them on their community access channels, so
23 that's actually something we're going to continue to
24 pursue. I'm going to try to see if I can get a list of
25 all those community channels and hit them up directly.

1 We also have a new video that I think just went
2 up yesterday, and it's sort of a How to Keep Your Home
3 California. It's a -- it's somebody that -- it's about
4 a five-minute video that walks a borrower through the
5 entire process -- this is what happens when you call.
6 You know, these are the documents that you'll be asked
7 to provide. This is how long it takes. These are all
8 the steps -- just to sort of make it a little bit more
9 friendly, a little less scary. That was filmed at the
10 CalHFA loan servicing center in -- in West Sacramento.

11 We have -- we started a -- an SEM campaign,
12 which is, you know, like if you go on Google and type in
13 certain key words, so that we can -- we can pop up.
14 That's already proving to be pretty successful. In the
15 last couple of weeks, that's been sort of the number
16 three. You know, we track marketing efforts to see what
17 works, and that's the number three way people are saying
18 they're getting to our Web site right now.

19 We do have a Twitter account, which is very,
20 very active. We've got somebody tweeting three or four
21 times a day. We have a new Facebook page that went up
22 this week because we know, you know, that's how a lot of
23 people are finding information these days, is on
24 Facebook.

25 We're working with Experian. We're going to

1 take our -- our loans that have successfully completed
2 the HAPs. We're doing some modeling with Experian.
3 They're going to look for, you know, all the
4 characteristics why these people were successful, and
5 then, you know, we can look for people that were -- you
6 know, that are 30-days delinquent and do very targeted
7 mailings.

8 We're going to do that in one or two counties in
9 the next month to see how that works. We're going to
10 try two different things. We're going to try a
11 postcard, and we're going to try a letter. We're going
12 to see if one of those has a better pull-through rate
13 than the other.

14 We're continuing to work with EDD. You know,
15 I've been trying to get the UMA information in the
16 packet that goes out to unemployed folks. They have
17 been hesitant to do that because it's something that's
18 paid with federal funds, and I need the approval of the
19 federal government. I've talked to be federal
20 government, and they keep saying, "We're thinking about
21 it. We're not sure that's the best way to do it."

22 And I keep saying, "I don't care if it's the
23 best way, let's just do it while you're thinking. Come
24 on."

25 This week they're -- you know, we heard about

1 Cisco having some layoffs, Borders closing their doors,
2 so I've got people calling Cisco and Borders to make
3 sure that they have this information put in those
4 severance packages, which led to the discovery that EDD
5 actually has on their -- they have a database of the --
6 every company that's laying off more the 50 people, so
7 I'll be getting my grubby little hands on that in the
8 very near future. We're going to go after that.

9 I think that's pretty much everything.

10 Are there any questions?

11 MR. GUNNING: No, Madame.

12 MS. RICHARDSON: Thank you.

13 MS. PETERS: Not a question, just a comment.
14 Great job. Incredibly creative outreach. Keep up the
15 good work.

16 One comment, the Governor's Office has been
17 stressing to the Cabinet to increase collaboration
18 within state agencies, and a couple of things in your
19 comments sort of brought that to the forefront of my
20 mind, to make sure that you are communicating with
21 Commissioner Haraf over the Department of Financial
22 Institutions. He oversees the community banks and the
23 credit unions. So on your Innovation Fund that is
24 relying on them, he's a great contact.

25 Also, he has contact with the person from the

1 Attorney General's Office who is flying to Washington to
2 negotiate those settlements, so it's worth making a
3 phone call there to make sure --

4 MS. RICHARDSON: Right. Right. We actually
5 talked about that last week.

6 MS. CAPPIO: That's, you know, in lieu of cash.

7 MS. PETERS: Cash is good. We'll take cash.

8 And, you know, while you're getting people to
9 agree to -- servicers to agree to be a part of this, we
10 know they're not necessarily always following though,
11 from what they say in the press they're doing and what
12 they're actually doing. It would be great if you could
13 follow through with the Department of Corporations on
14 state regulated services that you're dealing with in the
15 event that they're not being as cooperative as we would
16 hope they would be in living up with their agreements
17 with staff. Please engage the Department of
18 Corporations just to make sure that their enforcement
19 programs are working.

20 MS. RICHARDSON: Yeah, I will say, though, once
21 we have the servicers onboard, they're pretty good.
22 They're -- they're -- it's -- you know, we're seeing
23 very few problems.

24 One of the -- you know, in talking about the
25 Mortgage Reinstatement Program, that's really taken off,

1 but it's only taken off as what we call MRAP pure,
2 meaning pure reinstatement without a modification
3 involved with it. So if there's any kind of a
4 modification, which would actually -- you know, like the
5 pure PRP or the MRAP with a mod that requires them to go
6 in and do something to the loan, you know, they're a
7 little bit more reluctant to take our money because that
8 adds one more level of bureaucracy. So we're really
9 pushing hard, and we're seeing more of them coming
10 onboard for the -- for the MRAP mod, and we continue to
11 push that very hard, along with PRP.

12 But, you know, those are good points, thank you.

13 MS. PETERS: Maybe if Commissioner DuFauchard
14 can facilitate communication, that would be helpful.

15 MS. RICHARDSON: Great. Thank you.

16 ACTING CHAIRPERSON CAREY: Other questions or
17 comments?

18 That is a huge undertaking. And I guess what --
19 the only thing that sobers me is that out of \$2 billion,
20 we've got 14 million out so far. We've got a huge
21 distance to go, and it's a resource for the State in
22 stabilizing the housing market. So I just -- I don't
23 know what -- what more stops we need to pull out, but it
24 would be great to see it really ratcheting up. And I
25 don't know what the goals are for the next six months

1 through December, but --

2 MS. RICHARDSON: I would also just point out too
3 that, you know, the bigger dollars will be on the
4 principal reduction, and those funds generally don't go
5 out the first day. They generally go out after -- the
6 first funding would be after a year, so there's always
7 going to be that lag.

8 ACTING CHAIRPERSON CAREY: Right. Great. All
9 right, thanks.

10 No other questions? We'll move on.

11 Let me see. It's 11:30. I think we'll just --
12 Yvonne, okay with you if we press on?

13 COURT REPORTER: Yes.

14 ACTING CHAIRPERSON CAREY: Great.

15 --oOo--

16 **Item 9. Reports**

17 ACTING CHAIRPERSON CAREY: We'll just press on.

18 Item No. 9, reports. Steve.

19 MR. SPEARS: There are four in your -- in your
20 binders. We usually just provide opportunity for Board
21 members to ask staff any questions about what they have
22 read. And the folks are here in the audience that
23 helped prepare these reports, so if you have questions
24 on them, now is the best time to ask.

25 ACTING CHAIRPERSON CAREY: I guess I'd like to

1 ask what -- what the delinquency trends are telling you.

2 MR. SPEARS: After I left the office to come
3 down yesterday, I received the next month of reconciled
4 data, and I haven't had a chance to review that. On an
5 unreconciled basis, we've seen a slight uptick in the
6 summertime, not in the over-90 but in the 30- and 60-day
7 categories.

8 So I went back and looked, and in the last two
9 summers we've seen the same thing. And when you talk to
10 the loan servicing folks and the portfolio management
11 folks, they'll tell you that those 60- and 30-day
12 categories go up in the summertime, and generally it's
13 I'm on vacation, you know, I thought I set this up with
14 Golden 1 to pay it automatically, it didn't. So you see
15 a lot of curing that goes on later on.

16 On the older loans, in the 90-plus and the REO
17 that we do have in inventory, we continue to make good
18 progress, and we've seen declines in those categories.

19 ACTING CHAIRPERSON CAREY: It seems like we're
20 moving more sales.

21 MR. SPEARS: Yes, we are talking to Bank of
22 America about the sale of delinquent -- seriously
23 delinquent FHA loans to them. We haven't finalized
24 that, but there are about 280 loans that are in that
25 category that would go to them. And as soon as you take

1 those out of the equation, delinquencies will improve.

2 And then we're going to be talking about taking
3 back some loans from some recalcitrant servicers, and
4 we're doing that too.

5 ACTING CHAIRPERSON CAREY: Yes.

6 MS. CAPPPIO: Steve, would you go through quickly
7 the Mortgage Insurance Fund, what we anticipate in the
8 next --

9 MR. SPEARS: Right.

10 MS. CAPPPIO: -- few weeks and how we're getting
11 prepared.

12 MR. SPEARS: Right.

13 The Mortgage Insurance Fund, as we discussed
14 before, is inadequately capitalized to deal with the
15 losses that we've faced. We have a partner. It's
16 Genworth. And we divide this risk 75-percent Genworth,
17 25 percent to us on the mortgage insurance policies.
18 We, number one, have made sure -- and we've confirmed
19 this with Genworth on a number of occasions -- if the
20 Mortgage Insurance Fund is unable to pay claims,
21 Genworth is legally obligated and will continue and has
22 committed to pay claims no matter what happens to the MI
23 Fund.

24 So a couple things we need to do just
25 operationally. Our own loan servicing department knows

1 what to do. Our non-CalHFA servicers of CalHFA loans
2 file claims with our MI Fund and with Genworth, so
3 they're going to have to know that. So what they do,
4 they file the claims. They get paid. They submit it to
5 us. And it goes to the HMRB indenture. Cash. Cash
6 from the GAP Fund, cash from the MI Fund and cash from
7 Genworth flow into the HMRB Fund.

8 Stop me if I say anything wrong here, Bruce.

9 When we -- when we lose a loan and we file
10 claims and settle up, that's where this happened up to
11 this point. So two funds are going to run out shortly,
12 the GAP Fund that was established and the MI Fund. So
13 the question is what happens at that point?

14 What happens at that point is that Genworth
15 keeps making payments and that money keeps flowing
16 through the HMRB. Since payments will not be coming
17 from the MI Fund and the GAP Fund, the HMRB equity will
18 start to go down by the amount that they would have
19 otherwise received in cash.

20 This is what we've been talking about for some
21 time now. It's upon us. So we are going to send a
22 letter to servicers shortly. We're going to -- there's
23 only one thing ongoing with the MI plan and that is we
24 still have policies on the books. We still will be
25 receiving premium revenue in the MI Fund, and so the

1 question is what happens when that comes in the door,
2 how do you pay claims? And so we're going to establish
3 a first come first serve queue, and as claims are
4 listed, they'll be paid in the order listed as we go
5 down.

6 So that's the plan, and I think it's -- you
7 know, borrowing additional capital from some source to
8 put into the MI Fund and recapitalize it, this is what
9 the plan needs to be going forward.

10 MR. SHINE: Explain -- I don't understand -- the
11 HMRB Fund. What is that?

12 MR. SPEARS: The HMRB indenture is the indenture
13 with most but not all of the single-family bonds used to
14 finance the single-family program over the past year.

15 MR. SHINE: So when and if the time comes that
16 our mortgage fund runs out of its share of the payment
17 of the losses of Genworth, Genworth is funding a hundred
18 percent.

19 MR. SPEARS: No, they'll keep paying their
20 75-percent share.

21 MR. SHINE: So they're not paying all of it.
22 They're -- they'll pay their 75-percent share and --

23 MR. SPEARS: Right.

24 MR. SHINE: -- and where do we get the -- and we
25 go to this fund here to get the other 25 percent?

1 MR. SPEARS: In essence, the equity of that fund
2 absorbs the loss, rather than get reimbursed in cash
3 from the MI Fund.

4 MR. SHINE: Somebody makes out a check to
5 somebody to pay. If they're going to pay three
6 quarters, where do we get the money to pay our quarter
7 of the claim?

8 MR. SPEARS: We're no longer going to receive
9 cash payments on insurance claims for those losses for
10 the 25 percent because there won't be cash in the MI
11 Fund to do that. It will come in as premiums come in
12 and will be paid in this queue as premiums come in over
13 the years, but in the meantime, borrowing those cash
14 payments and if eventually, you know, the losses exceed
15 any future ability to pay a few claims, the HMRB Fund
16 equity that's built up over the years -- Bruce, I'm not
17 sure what the amount is.

18 MR. GILBERTSON: Roughly 300 million.

19 MR. SPEARS: -- will absorb these losses as we
20 go down the road.

21 MR. SHINE: So at the end of the day, the
22 economics, we're still paying our quarter and they're
23 still paying their three quarters.

24 MR. SPEARS: Yes, sir.

25 MR. GILBERTSON: We're not getting the --

1 MR. SHINE: Until we run out of --

2 MR. SPEARS: Until we run out of the 25 percent,
3 yes. And that's going to happen in August.

4 MR. SHINE: In August, the HMRB Fund runs out of
5 money?

6 MR. SPEARS: No, in August the MI Fund runs out
7 of money.

8 MR. SHINE: The Mortgage Insurance Fund. I
9 wasn't here. After then -- excuse me -- after that
10 happens, then what? And for how long can we live with
11 what's left in the HMRB Fund until -- and if it ever
12 happens --

13 MR. SPEARS: Right.

14 MR. SHINE: -- that we have no longer the
15 ability to make good?

16 MR. SPEARS: That's the 64,000 dollar question.
17 It depends not only on Genworth's ability to keep paying
18 their 75 percent. That's a very big number. And as
19 we've said before, you know, in briefings to the Board,
20 if that stops happening, the HMRB equity declines very
21 rapidly, and, you know, serious -- that has serious
22 consequences.

23 So it depends, one, on Genworth's continued
24 paying of the claims to us, which they've done without
25 interruption. Very few claims have been turned down.

1 When I did a review of the 20 claims that have been
2 turned down in the last two years, they were all because
3 we mistakenly thought that there was a policy -- it
4 wasn't that they had been turned down because of some
5 gotcha, you forgot to check a box. They've been very,
6 very good partners about this.

7 So if they continue to meet their obligation,
8 then it's a question of how long the losses continue in
9 the portfolio and how quickly the home price market
10 comes back. Because if we were to -- you know, if
11 losses were to be extended into the future but suddenly,
12 by some miracle, home prices rebound within the next
13 year, you know, we would not be suffering the depth of
14 loss on each loan. It's not only the frequency of loss,
15 it's the depth of loss. It's the 50-percent loss in
16 value. If that were to increase over the coming years,
17 then those losses would increase accordingly.

18 MR. SHINE: Is it your assessment that the
19 volume of foreclosed properties is somewhat getting
20 better, or is it staying the same, or are the forecloses
21 increasing?

22 MR. SPEARS: Bruce and I have a joint answer to
23 that. There is no doubt -- and you can see the
24 graphics. It's page 163 in the binder -- that both FHA
25 and conventional delinquent loans continue to decline.

1 That's the trend. But they're still high. So we've got
2 more work to do.

3 MR. SHINE: I know you got a handle on that.
4 I'm just curious.

5 MR. SPEARS: Right.

6 MR. GILBERTSON: Another way to think of this
7 is -- I've been doing some work on this because we want
8 to present this to Moody's from an accounting
9 perspective. Okay. So I've been doing the accounting
10 records. It appears to me that the peak loss period for
11 the single-family portfolio was the two fiscal years
12 that are totally behind us, the 2008/9 and 9/10. And
13 what we're seeing in the fiscal year that just ended,
14 the 2010/2011, is a significant drop in losses on that
15 portfolio.

16 By numbers, if I remember these correctly --
17 because I went back to the 2007/8 fiscal year, kind of
18 just as things were starting to unwind. We had losses
19 recorded by the accountants of about \$20 million. The
20 next two fiscal years, we had losses in excess of \$150
21 million for each of those years, so a total of 300. And
22 I -- the projection -- we don't have June 30th numbers
23 as of 2011, but the projection for the last fiscal year
24 is losses around a hundred million.

25 MR. SHINE: Of which we pay a quarter.

1 MR. GILBERTSON: These are -- this is a -- no,
2 these are losses, not just principal balance of loans.
3 These are losses that consist of several different
4 types. So it's a loss based off that GAP insurance
5 policy. So if we -- we set aside \$135 million about 15
6 or 16 months ago for that purpose. There's losses that
7 are from our Mortgage Insurance Fund, okay, that we've
8 talked about. And there are losses that that bond
9 indenture, HMRB, inherits because they are the investor
10 in the mortgage.

11 So at the end of day, when the foreclosure
12 happens and the property is sold to an investor or a
13 homeowner, the net proceeds produce a loss to them.
14 They don't get all their principal back. And so it's a
15 total of all of those things on an annual basis.

16 So we think the trend is improving. It's still
17 large. A hundred million is a lot. But I think if you
18 look at the three quarters that we have, I'm anxious to
19 see the fourth quarter, the trend is improving, you
20 know, ever so slowly.

21 So I do -- my own personal opinion, and this is
22 just from looking at numbers and feeling this over the
23 last few years, it feels to me like we're about two
24 thirds of way through this. There's a huge problem, I
25 think, and that is that any borrower that has income

1 disruption is sitting in a home that is underwater. So
2 they've made the decision to try to meet their mortgage
3 obligations, but if they lose their job or have a
4 medical situation or there's a divorce in the family or
5 something else, then they're going to be faced with this
6 tough challenge that they don't have equity to be the
7 cushion for them because they're underwater.

8 MR. SHINE: I'm glad to hear you thinking that
9 way.

10 MR. GILBERTSON: Yeah. I'm a fairly optimistic
11 individual, both here and personally, so.

12 MR. SPEARS: Well, the real unknown is what
13 happens to the economy. And if unemployment were to go
14 back up again, that's the income disruption that Bruce
15 is talking about. And so there -- there are a number of
16 things that are critically important still. You're
17 certainly not out of the woods. Genworth is absolutely
18 number one. The economy is number two. Love to see the
19 housing market come back, but it's not going to. It's
20 just not.

21 There was -- in The Bee on Saturday or Sunday
22 there was a small article about, you know, property
23 values in Placer County have gone down by another 3
24 percent. And the -- you know, El Dorado Hills and
25 Placer and -- what's the other county up in the El

1 Dorado Hills? -- anyway. Those have been sort of, you
2 know, stable price communities up there, a lot of them,
3 and they continue to slide. So I don't think we can
4 look for relief from that -- that sector.

5 So I'm not playing good cop/bad cop with Bruce
6 here, but -- but I just think that I like the trends. I
7 like the trends. We keep making progress. But my worry
8 is that many of the folks in the 25 or 6 or 7 thousand
9 loans that we have on the books, I can't remember the
10 exact number, most of them are current. 85 percent of
11 them are current, not even a payment late. 80 percent
12 of those people are underwater. What would it take for
13 them to walk at this point?

14 But as Bruce keeps saying when we have these
15 conversations, why do they keep paying? You know, now
16 they have paid through these two tough years, really
17 tough years. And they're still current, not one payment
18 late.

19 So someone is probably going to write a white
20 paper for a thesis someday about the psychology of all
21 this. I don't have the answer. But we continue just to
22 really look closely at what's going on with Genworth and
23 the economy.

24 ACTING CHAIRPERSON CAREY: Okay. Other
25 questions or comments on the reports?

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Item 10. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Any other Board matters to bring up?

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Item 10. Public testimony

ACTING CHAIRPERSON CAREY: This is an opportunity for the public to address the Board on any item that was not on the agenda. If anyone wishes to address us, please indicate.

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Item 12. Adjournment

ACTING CHAIRPERSON CAREY: Seeing none, we are adjourned.

(The meeting concluded at 11:53 a.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 11th day of July 2011.

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

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