STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Tuesday, October 18, 2011
10:00 a.m.

Minutes approved by the Board of Directors at its meeting held: JANUARY 19, 2012

Attest:

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

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

A P P E A R A N C E S

Board of Directors Present

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

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

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

PEDRO REYES
for Ana J. Matosantos, Director
Department of Finance
State of California

RUSS SCHMUNK
for Cathy Cresswell, Acting Director
Department of Housing and Community Development
State of California

RUBEN A. SMITH
(Chair of Advisory Committee)
Partner
Adorno Yoss Alvarado & Smith

TRACI STEVENS
Acting Undersecretary
Business, Transportation, and Housing Agency
State of California

A P P E A R A N C E S

Participating CalHFA Staff

ROBERT L. DEANER II
Director of Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing

TIM HSU
Financing

VICTOR J. JAMES
Deputy General Counsel

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

L. STEVEN SPEARS
Chief Deputy Director

LINN WARREN
Mortgage Insurance Services

--o0o--

Public Testimony

ROSS ROMERO
Chicanos Unidos

--o0o--

Table of Contents

Table of Contents

--o0o--

BE IT REMEMBERED that on Tuesday, October 18, 2011, commencing at the hour of 10:18 a.m., at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

--oOo--

Item 1. Roll Call

CHAIR CAREY: I would like to welcome everybody to the October 18th meeting of California Housing Finance Agency Board of Directors.

The first order of business will be roll call.

MS. OJIMA: Thank you.

Mr. Schmunk for Ms. Creswell?

MR. SCHMUNK: Here.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Here.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Here.

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

MS. CARROLL: Here.

MS. OJIMA: Thank you.

Mr. Shine?

(No response)

MS. OJIMA: Mr. Smith?

MR. SMITH: Here.

MS. OJIMA: Ms. Stevens?
MS. STEVENS: Here.
MS. OJIMA: Mr. Alex?
(No response)
MS. OJIMA: Mr. Reyes for Ms. Matosantos?
MR. REYES: Present.
MS. OJIMA: Thank you.
Ms. Cappio?
MS. CAPPIO: Here.
MS. OJIMA: Mr. Carey?
CHAIR CAREY: Here.
MS. OJIMA: We have a quorum.
CHAIR CAREY: Thank you, JoJo.

--oOo--

Item 2. Approval of the minutes of the July 21, 2011, Board of Directors meeting

CHAIR CAREY: The second item is approval of the minutes of July 21st.
MR. GUNNING: Move the minutes.
MS. STEVENS: Second.
CHAIR CAREY: Moved and seconded.
Roll call, please.
MS. OJIMA: Was that Ms. Stevens?
CHAIR CAREY: Yes.
MS. OJIMA: Thank you.

Mr. Schmunk?

MR. SCHMUNK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Ms. Stevens?

MS. STEVENS: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: The minutes have been approved.

CHAIR CAREY: Thank you.

--oOo--

Item 3. Chairman/Executive Director comments

CHAIR CAREY: I apologize for a bit of a late start. And I also want to apologize for the fact that we had to reschedule this meeting. Several members unavoidably were out of town and couldn't be here. So I appreciate, especially the staff, who had to rework all the arrangements.

And with that, I will turn it over to our

Executive Director.

MS. CAPPIO: Good morning. Just a few items of note.

We had a meeting, a team of CalHFA members had a meeting with U.S. Treasury and with Moody's in August. The good news was that the U.S. Treasury has decided, at least conceptually, to extend the Temporary Liquidity Bond program. We don't have the details yet, but it will be forthcoming.

And we got a slight haircut from Moody's, but we are still stable.

That action and the continuing volatility of the capital and bond markets has caused us to initiate the strategic and budget planning for the following year sooner, and we'll be doing that in the next couple of weeks and months in order to look at new strategic priorities and possible directions for the Agency, supplementing what we do now.

And I will be reporting back, hopefully to you, with the details in January.

We've been working with our sister agencies, or sister housing agencies, on a number of initiatives, including a permanent source to vet whether we can go for that again in California, to stabilize sources of funding, and also an affordable housing cost study.

That request for proposal is going out within the next 30 to 45 days in response to the big and serious concerns about the increasing cost of producing affordable housing.

And finally, just to make note, I know that there has been some discussion about the November 17th meeting. Given that we do not know about when the details of the Temporary Liquidity Bond program will be forthcoming from the U.S. Treasury, we may need to call a meeting before the end of the year if you need to take action on the details or arrangement or agreement per that extension.

So with that, I end my comments.

And thank you very much.

CHAIR CAREY: Thank you very much.

--oOo--

Item 4. Closed session

CHAIR CAREY: With that, we will be adjourned into closed session under Government Code 11126(e)(1) to confer with and receive advice from counsel regarding litigation.

(The Board of Directors met in closed session from 10:22 a.m. to 11:12 a.m.)

CHAIR CAREY: We are back in session.

Thank you for your patience.

Item 5. Report of the Audit Committee Chairman

CHAIR CAREY: And our next item of business is a report from the Audit Committee chair.

Mr. Smith?

MR. SMITH: So the Audit Committee met earlier this morning, and the discussion was regarding the RFP for an auditing firm and the procedures to be followed in the selection process.

And the Audit Committee wanted to propose a recommendation to the full board as to how we might proceed.

I'm not sure that -- I'm assuming it's in your materials, the RFP proposal that was proposed by the staff.

In essence, what we agreed was -- because of the timing, I think our audit needs to start by February, and we need to have a contract in place by February -- we recommended that two members from the Audit Committee be designated to work with the two members of the staff in evaluating, one, completing and finalizing the proposal, substantially in the form that it's in, with some recommendations that were made; and, two, to score that proposal, and then bring the results back to the Audit Committee, which would then recommend to the full board which firm we would recommend selecting with all of the information, in terms of how they were scored, so that the full board would have that information, but would allow the flexibility so that at least two Board members would be involved in the selection process and the interviewing process.

So I think there's really two items. One would be to talk about the process, which is what I just described; and the other one is a couple of changes that we recommended to the RFP.

I think that's it on the actual issue with respect to the procedures to be followed.

You -- the full board -- would have the final decision, but the idea to get Board involvement is to have two Board members serve on the committee with two staff members. And then those scoring results would be brought back to the full board.

So I think that would be in the form of a motion to ask the full board to approve that process so that we can move forward without having to have any other meetings other than our January meeting, which is where we would bring the results to the full board.

MS. STEVENS: So moved.

CHAIR CAREY: We have a motion and a second.

Any further discussion on that?

(No response)

CHAIR CAREY: This is a result of the Board's interest in being more integrally involved in the selection of the audit firm without hampering the process too much, and it seems to fit that well.

So with that, we'll have a roll-call vote.

MR. JAMES: Public comment?

CHAIR CAREY: Oh, yes, thank you.

This is an action item. So we would invite comment from anyone in the public who would like to comment on this particular item.

(No response)

CHAIR CAREY: Seeing none, we'll have a roll call.

MS. OJIMA: Did Ms. Carroll make the motion?

CHAIR CAREY: Mr. Smith made the motion.

MR. SMITH: I made the motion.

MS. OJIMA: Thank you.

Mr. Schmunk?

MR. SCHMUNK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Ms. Stevens?

MS. STEVENS: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Aye.

MS. OJIMA: It has been approved.

MR. SMITH: And then just to give a report back to you in terms of some of the comments that were made with respect to the RFP, one is that one of the questions that was asked by staff is whether Deloitte should be allowed to participate. The Audit Committee felt that that would be fine, provided that they were asked to bring new people in so that we could get a fresh perspective.

The idea is, regardless of which firm we end up selecting, that we want a fresh pair of eyes, and at least to consider what that cost would be. But we did want to leave it open. We also asked that it be open to anyone who wanted to apply, and to try to have some more outreach in terms of diversity in terms of who might apply to the RFP.

There was also some discussion about joint ventures between diverse firms and majority firms. That's something that I'm not sure applies in this context, so we'll leave that up to the committee to see how that might play out.

The other comment was to attach to the RFP the actual contract, so that in the RFP process, if a bidder had any issues with the contract that we were proposing, that would be part of their RFP response.

And that way, we could shorten the time frame of when we select someone, because we would already have a basic and approved contract in place, so it eliminates the whole negotiation of the contract. And given our timing, that would expedite our ability to move forward.

I think that was the summary of the majority issues discussed, so now the full board has the information.

Any questions, let us know.

MS. CARROLL: In terms of -- speaking about rotation and getting some different ideas in, how long have we had Deloitte? How long have they been our auditors?

MR. SMITH: I know it's at least six years, but I will ask Steve to -- it's been a long time.

MR. SPEARS: A very long time. Ten-plus years.

MS. CARROLL: I certainly applaud the idea of getting at least new staffing partners in. I think we should consider that in the selection process and the possibility of rotation in the selection process.

That's a long time to have one audit firm.

MR. SMITH: Right. And I think that's why we asked them to at least make all new members, including the top management. It's not just rotating the staff, but the folks who have been involved in the process.

MS. CARROLL: Right, although it is still the same firm.

MR. SMITH: Yes, yes. We wanted to at least let them make a proposal, and we could compare it with the others.

MS. CARROLL: Sure, sure.

CHAIR CAREY: Any other questions?

(No response)

CHAIR CAREY: Thank you very much.

Steve, were you going to make some comments about the RFP or -- go ahead. It's yours.

MR. SPEARS: Well, Mr. Chairman, do you want to address the issue of the two members who are going to serve?

CHAIR CAREY: Yes.

MR. SPEARS: I don't have any other comments about the RFP.

CHAIR CAREY: Okay, and both Mr. Gunning and

Mr. Smith have agreed to serve on that working group.

And so just to clarify it, it's a working group, working with the staff, it gives us a hand into the process.

Their recommendation will go to the Audit Committee prior to the January Board meeting, and then will come to the full board at the January Board meeting. And that will be the Board's action point, is at the January Board meeting.

MR. SPEARS: And the Executive Director will appoint the two staff at some future date.

MS. CAPPIO: Soon.

CHAIR CAREY: Okay, any further discussion on that?

(No response)

CHAIR CAREY: Okay, moving on to -- so we don't need anything else on the RFP process or anything?

MR. SPEARS: No, sir, I don't believe so.

--o0o--

Item 6. Update and discussion regarding the financial condition of the Agency, including an update regarding the status of the U.S. Treasury's New Issue Bond Program and the Temporary Credit and Liquidity Program.

CHAIR CAREY: Okay, moving on, update and discussion regarding the financial condition of the Agency.

Steve and Bruce.

MR. SPEARS: And Tim.

CHAIR CAREY: And Tim.

MR. GILBERTSON: Good morning, Mr. Chairman and Members of the Board.

In your binder, you will notice there is a brief memo dated September 12th. Because the meeting was postponed, it hasn't been updated, but most of the information is relevant.

We wrote that memo shortly after making the East Coast trip to visit both the United States Treasury regarding the TCLP and whether or not they would be able to extend the program, and then also a lengthy conversation that we had with Moody's just prior to them going to rating committee.

I also understand that Board members did receive the rating-letter updates, the notice of downgrades in late September. You know, we lost one notch in both the general obligation rating of the Agency, as well as the HMRB indenture rating.

So what we thought we'd do today is kind of give you another update.

You've heard from Tim and I many times over the last couple years about the financial situation at CalHFA, our condition, and the credit challenges that we still face.

So the easiest way for us to kind of walk you through this, is to lay out the strategic objectives that management has had for the last few years. There are rating levels that are triggers, and they're bright lines, almost. And so we need to maintain, to the extent possible, the G.O. rating of the Agency in the single-A category. Currently, it's at the bottom rung of the A category: A3 by Moody's and A- by S & P.

And then we also need to maintain the largest bond-indenture rating of the Agency, a special-obligation indenture, we refer to as the "Home Mortgage Revenue Bond" indenture at investment grade. So that's the bottom rung of the BBB rating levels. Currently, BBB by S & P and Baa2 at Moody's.

And all of this is to have this rating framework. If we can keep things in check at those levels, you know, the flow of funds will work, the liquidity of the Agency we believe will be sufficient to get us through this crisis.

If, however, we fall below those rating levels, it potentially would interrupt the cash flow and liquidity position of the Agency, causing some other future challenges. And we'll get into that as we go through this presentation today.

Here is a history of the rating actions. You can see we've put on here, prior to 2009, for many, many years, the Agency had, you know, mid to low and AA credit ratings. And we had those for years and years. The HMRB indenture was first utilized in 1982, and for the vast majority of all those years it was in the AA category.

The first downgrades occurred in July of 2009. And you can see, we've highlighted the current rating levels. And then we've identified where the thresholds are that would cause significant consequence to the Agency, below single-A level and below Bbb-/Baa3.

Again, you've seen slides similar to this before. A lot this is the relationships between the credit ratings. They're not stand-alone on their own. There is interplay between the general obligation rating of the Agency and the Home Mortgage Revenue Bond indenture and its rating.

Let me walk you through that quickly. We're going to start in the upper left box, the blue box, that is depictive of the general obligation credit rating, currently rated A-/A3. There's $1.1 billion in bonds outstanding that are backed by the general obligation rating of the Agency. Those are, in large part, our multifamily loan programs, bonds issued to finance multifamily loans.

TCLF, the federal government has provided $676 million of credit and liquidity support for bonds issued under those indentures. And that's a part of the general obligation pledge of the Agency.

At the time of this, August 3rd, 2011, we had approximately $283 million of liquid assets in the general reserves of the Agency, a portion of that was posted to swap counterparties. I'll get to that here in a moment.

But what does the general obligation serve as a credit support to, away from the bond programs that we have? Well, the swap counterparties face a general credit obligation rating.

In the upper right-hand corner of this slide, you see the white box. We had a mark-to-market on swaps. I think the swap notional amount is somewhere in the neighborhood of $2.5 billion. The negative mark against the Agency in early August was $303 million.

To give you a sense of how that market value changes, the DV01 represents the dollar value of 1 basis-point movement in interest rates. So if interest rates were to go up by 300 basis points -- or 200 basis points, approximately, we would be at break-even.

So all rates across the yield curve would have to go up by about 200 to get us to break even, and then the market value would be effectively zero.

The other thing of note here is that we've tried to distinguish -- and this is, in large part, to convince Moody's that we have more than enough liquidity assets of the general obligation reserve to deal with swaps under the HMRB indenture. So we've shown both the market value of the G.O. swaps and the swaps that are securing HMRB, or hedging HMRB bonds.

You see, that's $204 million on the slide, meaning, that the Agency would still have approximately $80 million of liquid assets if, in fact, we had to elect to terminate all of the swaps that are hedging HMRB bonds.

We're going to move now to HMRB. And this is the orange-colored box down at the bottom left of the page. Again, BBB/Baa2 ratings from S & P and Moody's. We need to maintain the investment-grade rating.

$4.7 billion of bonds have been issued out of this indenture. $2.1 billion are these variable-rate demand obligations that need a credit and liquidity support currently offered and provided for by the federal government.

And we've added one more graphical depiction here, and that is the Agency is currently administering approximately $2 billion of Hardest Hit Funds coming from the U.S. Treasury to help Californians avoid foreclosure. Those monies are available not only to our program, but to all Californians if they meet the program criteria.

What this is saying is that those monies can help reduce delinquencies and reduce expected loan losses. As they materialize, currently, HMRB has been funded to the tune of $16.2 million from the Hardest Hit monies.

Tim is going to go into another layer of detail regarding the relationships of the G.O. and the HMRB indenture.

MR. HSU: The orange box, which is HMRB, I think that many of you know that the single-family delinquencies that's creating a lot of downward rating pressures on the Agency in general, is coming from this orange box. And this chart here is depicting the four supports for that orange box.

First, we have the M.I. Fund. This is our own M.I. Fund. We have Genworth and we have GAP reserve and we also have the Hardest Hit.

This chart here is depicting the four supports, but it's also noting that the M.I. Fund and the GAP reserve, which are resources under the umbrella of the grade of CalHFA, have been depleted. The last resources in both of those pots were depleted back in August of this year.

MR. SPEARS: So the next slide points out some successes that we've had. And we've talked about some of these before.

August 1st and February 1st are really, really important dates for us. That's when debt-service payments are made, swap payments are made. And those payments were made on August 1st -- and, again, since we last met in July, this was an important event since we've last met.

On top of the fact that we made all of our debt-service payments and swap net payments, we also exercised $34 million of swap par terminations. And that simply means that those are swap contracts that we are not going to have to make payments on.

In fact, you can see that on 2/1/12 is a huge date for us because $300 million of those swaps go away on a par basis without -- we're not buying those out; they just expire. So a very important date for us.

Tim will go over a chart and two or three slides that will show you how this goes down over time. It's rather dramatic.

We've had two rounds of swap collateral

threshold negotiations that have really put us in the place where we can still be alive and breathe, frankly; and they were very successful.

And then the other thing that we've done is gone out and bought fixed-rate bonds at a discount on the open market, and saved us about $39 million.

And I think pretty much all of that went into HMRB equity; correct? So when you see HMRB equity health, that was helped out by $39 million of some strategic purchases out in the market.

The key for us are not only delinquencies, but Genworth. Genworth has to keep making payments to us. And so we've gotten a total of $275 million over the life of our relationship with them. A lot of it has come in the last two or three years. But $68 million so far this year alone.

And as we said, in that previous slide, we saw those other supports -- the GAP payment and the M.I. Fund payments going away. Genworth's obligation is still there, and that's still going to be there.

And as we said, we've had 654 loan modifications, we've talked about before. Not all of those are assisted with KYHC funds. You saw the $16 million coming over. That's helped some of those loan modifications but not all of them.

Should we stop and see if there are any questions at this point, about anything along the way?

(No response)

MR. SPEARS: If not, we'll keep on rolling.

MR. GILBERTSON: So what we've done is tried to lay out, there's three primary challenges that the Agency still faces.

You may remember, over the course of the last couple of years, this list was much longer. It included a number of others things. We used to talk about bank bonds. We used to talk about the Bay Area Housing Program. Thanks to the collective efforts of the State Treasurer's Office and Cal Mortgage, we were able to deal with that earlier this year.

So three things remain: The extension of the United States Treasury's TCLP program. Just as a little bit of a refresher, in October of 2009, they announced two programs to assist housing finance agencies. CalHFA was a big user of both of the programs. TCLP was one. We asked for $3.5 billion worth of credit and liquidity support at the time. They provided that to us. And we now have approximately $2.8 billion of that currently attached to variable-rate bonds.

The second thing that the rating agencies are always asking about is swap collateral posting requirements that we have because our ratings have been falling, and whether or not we have sufficient liquidity to meet those obligations over the long term.

And then the third one, and perhaps the most challenging for us to deal with, is the single-family portfolio that we own. You know, the repricing of real estate in California, where prices went down, were cut in half, has led a lot of borrowers that we financed in appropriate loan products, to default. And so we still have 13 percent delinquency. We'll talk about each of these over the next few minutes here.

The good news is, after we met with Treasury in early September, they wrote a brief memo on September 23rd announcing the intention of Treasury to consent to the extension of the TCLP program for a period of three years. So we now go from -- let's see, it was set to expire December 31, 2012. To the extent that this extension does happen, it was just the intention to consent to the extension, it would go out to 2015.

They've also, as a part of that notice, that memorandum, they notified us that extension fees would be appropriate and consistent with the fees that we have paid all along.

So that is, roughly, we pay between 75 and 100 basis points for those facilities today. And they'll probably gradually go up for those three years that the facility is extended.

They said that additional details would follow. We've not heard any or seen any of the details since September 13th. We're hoping sometime by late November, we might see those details. So that's good news.

And then Moody's took note of this, and this was very powerful as they went into rating committee, you know, assessing our credits.

MR. HSU: One of the major concerns that the rating agencies has, is the amount of liquidity or just cash and investments that we have that can be used to post as collateral to the counterparties.

I think Bruce mentioned earlier that we have about $283 million of cash and investments that's available to post as collateral to the counterparties. This chart here is showing that of the $283 million on that day, $85 million was posted to the counterparty, and we had $198 million still sitting back at the Agency.

This is basically a risk-management tool to show that if we were downgraded on that day, how would the cash position change? So it shows that if we were downgraded by one notch and were to go to BBB+, we would increase our collateral posting to the counterparties from $85 million to $176 million. And in so doing, we would only have $107 million sitting back at the Agency rather than the $198 million.

The main strategy that we have to decrease this risk of having a large amount of collateral requirement posted to the counterparties, is to try to reduce our swap notional as fast as we can.

There is a lot going on in this chart; but the key message here is that over the next four years, we can dramatically reduce our swap notional amounts through a natural amortization that's built into the swaps, and also through these par termination options that we talked about.

MR. GUNNING: I'm sorry, Tim, what's "notional"? What's that term?

MR. HSU: Swaps are referred to on a notional basis. Interest-rate swaps are referred to on a notional basis because you don't actually exchange that dollar amount.

So, for example, if you and I did an interest-rate swap and we are good counterparties, and you and I say that, "Well, we're going to do an interest-rate swap," it's going to be based on $100. Because it's in the same currency, because we are only trying to -- suppose that I'm going to pay you fixed and you're going to pay me variable. We're exchanging interest rates. We're not really having to exchange that dollar amount.

It's referred to as "notional" because you're trying to use that amount to calculate the exchange of the interest rate. So you say, "Okay, well, if I have to pay you fixed, I'll pay you $5, if it's 5 percent I have to pay you," but I'm not going to pay you $100 because on that day, in theory, what would happen is that I will give you $100 of cash and you will give it back to me, but I'll give you $5, and you give me the variable leg.

So you will have a simultaneous exchange of that notional amount. And as such, that amount is not actually exchanged. That's why it's referred to as "notional."

So what we're trying to show here is that a combination of the amortization of these swaps, and also the par termination options that we have -- again, these par termination options are options that we purchased when we first got into the swaps.

So Steve had mentioned earlier that on February 1st of next year, we have about $307 million of par terminations to exercise. What that means is that we simply noticed the counterparty that we would no longer use those amounts of the swaps, and we can get out of it without having to pay a market price to get out.

This dotted curve here, what this is attempting to show is an effort to project what the mark-to-market would be in the future as we reduce the notional amount of the swaps.

So Bruce mentioned earlier that our swaps are in the neighbor of about -- the mark-to-market -- about $300 million.

What you can see here is that what we are trying to depict is that, for example, if you go all the way out to August 2015, even if we were to take a fairly stressful interest-rate curve, if we go out to 2015, instead of $300 million owing to the counterparties, we could be all the way down to $100 million.

So the gist of this chart is saying that the next three to four years, if we do what we are showing here, we can dramatically decrease this risk.

MR. GILBERTSON: And one other thing to point out -- and I'm just going to use it because this slide is up here -- but the Treasury extension, if that were to happen for TCLP, runs through the end of 2015 -- so you can see the amount -- the notional amount of the swaps don't correctly correlate to the variable-rate bonds. But there is some correlation there. And so you can see that as we face the end of 2015, we're going to have significantly fewer variable-rate demand obligations outstanding that might or might not need this credit and liquidity support as we get to the end of an extended TCLP period.

So why do we feel comfortable that we can continue to meet the obligations that we have to the counterparties? And, again, I think what Tim and I would say is that we feel very confident, if we maintain A-rating levels for the G.O., we're somewhat comfortable at Baa1/BBB+, it probably won't work today. If a downgrade to the mid BBB were to happen, it would be very, very challenging for the Agency.

But if that event were to occur two years from now, a different story. So we need to, you know, the time element in perspective.

This shows what comprises that $198 million. These are internal account labels that the Agency has used for many, many years. We have general accounts that have $111 million. In our operating and financing accounts, we have $45 million. The Board created something called an emergency reserve account many years ago that has $31 million. And there's a supplementary bond security account.

A total of $198 million, and an additional $85 million was posted as collateral to counterparties on August 3rd. But that's a point in time.

So what we were trying to do is show you a forecast of what we think the liquidity position of the Agency will be over the next five years.

So the first column is the partial period from August 3rd through December 31st, 2011. And then you have four full calendar years.

So we're starting with $198 million. So this is net of the $85 million that was posted to counterparties in early August.

And let's just talk about the sources of new liquidity that come into the Agency on a monthly basis. We have a number of loans that are unencumbered, not attached to specific bonds. And so all of the payments that come in from those borrowers go into the Agency's general reserves and can be used for a variety of purposes.

So you can see, for the partial year, the remaining part of 2011, we're expecting $9.8 million to come in. These are a variety of loan programs. These are old single-family loans from old indentures that have been fully retired that we have access to. This also includes a number of multifamily loans, specifically some Section 8 loans that trace all the way back to the early eighties. All the bonds have been retired, and we get the benefit of the P&I payments as they come in monthly for the general purposes of the Agency.

You can see over the time frame -- it's not exactly a straight line -- but $38 million is accounted for in 2012. It goes up to a peak of $44 million in 2013. And then, you know, back down into the kind of mid $30 million range over the next two years.

And I believe if you were to go out, you know, four or five years beyond this, that would start tapering off over time.

We also received a number of admin fees. We service loans, so we get a servicing fee for loans. We collect an administrative fee out of that Home Mortgage Revenue Bond indenture that we collect every six months, and a variety of other loan fees and whatnot, some conduit lending fees, and that type of thing that represents what is $14.6 million for calendar year 2012.

And you can see, it's declining. A lot of that has to do with the servicing portfolio declining over time.

The next line item is a reimbursement of swap payments. I just want to make note that under, "Uses of Liquidity," there is also a line item labeled, "Advance swap net payments for HMRB." They're identical, so it's just an offset. But if, in fact, we faced a credit downgrade in HMRB where it fell below investment grade, we would still be burdened with the obligation to make the swap payments out of this pool of money, but maybe precluded, without an amendment, to reimburse the Agency's general obligation, the general reserves of the Agency for those payments.

So you can see those amounts over the course of the next four years declining, again, based off of our expectation of the notional amount declining and the forward curve, where interest rates are likely to go over the next three to four years.

Then there is one other item in the sources of liquidity. These are some excess revenues that are generated within the multifamily indenture, between $5 million and $10 million. We may or may not transfer those; but it is available to the Agency, should the Agency need that for other general obligations.

So you can see over time this amount is generally growing. And then we're comparing that to what are the ongoing obligations that the Agency needs to do: It needs to keep the lights on. It needs to pay its employees.

So the operating expenses are shown. These are rough estimates. And certainly the Board has a lot of discretion over the operating expenses of the Agency prospectively.

So we're showing a $46 million number for what amounts to the calendar year 2012; and it's going, you know, kind of not in one direction or the other because we had some strategic initiatives, some I.T. projects that we think will continue to require some expenditure over time.

You know, a small amount, we had some commitments to still fund some loans. It's unlikely that that $1.4 million will go out the door, but we want to honor our commitment to the borrower. I think these are loans under our HELP loan program. These are loans to localities to do affordable housing. At this point, there haven't been requests to draw down on those funds.

If we don't issue bonds, we, of course, won't have financing costs, you know, up-front costs of issuance. But we've shown an amount, $1.8 million, the balance of this year, and then $5 million is a general set-aside over the next four years.

And then the GAP claim payments -- Tim discussed this earlier -- the last of the GAP claim payments were made in August. And so that there will be no future GAP claim payments.

The bottom line is that you see that over the four- or five-year period, that the liquid assets of the Agency, absent additional collateral posting obligations to our swap counterparties, is generally rising, from $194 million that we would expect to be there at the end of this year, to $240 million at the end of 2015.

Any questions on that?

(No response)

MR. GILBERTSON: It's unfortunate that Board Member Shine isn't here. He loves to ask this question. I would really like to show him. And maybe we'll have to get him on the phone and run through this with him.

But any questions on our liquidity forecast?

(No response)

MR. GILBERTSON: I just want to reassure you, on some of the P&I payments, you know, HELP loan program, we made almost $200 million of those loans over time. We're not assuming full repayment. We're assuming 50 percent repayment on the HELP loans.

History to this point has been that they're paying at a much, much higher rate. Well over 90 percent of the localities are paying those loans back as they come due.

So we had three challenges, TCLP, we think -- keep our fingers crossed -- that Treasury does come out with an extension, getting us out to 2015. That's the best we can hope for now. And I think that will really help resolve that issue with the rating agencies for some time.

You know, we feel pretty comfortable that we can meet our swap obligations over time to the extent that we maintain the ratings that we've been discussing.

That leaves us the third challenge, which is the single-family portfolio.

What we have here is a depiction of delinquency ratio. There is a Board report in the back of your binder. I don't think it's the August 31st report. I think it may be a July report. But bottom line, we still have 13.68 percent delinquencies. This is showing, again, the delinquencies by insurance type.

Remember, the federal guaranteed loans, we're not nearly as concerned about as the ones that have conventional M.I. Our Mortgage Insurance Fund, you know, has run out of cash at this point. Genworth is still meeting their obligations.

But this is going to have a lot of significance, I think, for the Agency going forward. We have a few charts in here that just show the historical delinquency ratios over the last ten years. Certainly, you can see the run-up. And there's generally been improvement since 2009.

The big drop in the FHA delinquencies is that we asked Bank of America to repurchase seriously delinquent loans that they've had for a long time as a servicing agency, and they did that in August.

Was that about $60 million --

MR. HSU: That's correct.

MR. GILBERTSON: -- of mortgages that they purchased.

Here's another depiction of 30- and 60-day delinquencies. It kind of gives you a trend line. Really, that's roughly the same as it has been for quite a while. And then the more seriously delinquent loans and what things look like as of August 2011.

So there's a number of things that we're talking about.

I don't know if, Claudia, within the Agency, about trying to go after the portfolio, a lot of strategies are being developed at this point. We'll bring those back to the board as they really are put into place.

Any other questions regarding -- Mr. Gunning?

MR. GUNNING: Is there any reason in the August spike in the 90-day delinquencies?

MR. GILBERTSON: The August spike in the 90-day --

MR. GUNNING: August 10th, this 90-day?

MR. SPEARS: 2010.

MR. GILBERTSON: Yes, that one back in somewhere -- that's like early 2010, right?

MR. GUNNING: Yes.

MR. GILBERTSON: I don't recall off the top of my head what that was.

MR. GUNNING: No worries.

MR. SPEARS: Mike, I think we securitized a lot of FHA loans that were current, and got a premium pricing in a mortgage-backed security. So that took all those good loans out of the denominator, and made this percentage jump.

MR. GUNNING: Oh, that's why it looks bad.

MR. GILBERTSON: So that's one thing about ratios, you've got to be careful.

Remember, the overall thing is that our portfolio of loans, when we started the crisis, we had well over 30,000 -- 34,000 loans, if I remember.

We're now down to 23,000 loans. So a third of the loans have actually been dealt with one way or the other.

Other questions?

(No response)

MR. GILBERTSON: Thanks so much for hearing our update.

CHAIR CAREY: Yes, thank you.

You used the term "crisis" earlier. I like to think of "crisis" as being short-lived, but…

MR. GILBERTSON: This one seems to have a long life, yes.

--o0o--

Item 7. Update and discussion regarding the *Keep Your Home California* Program

CHAIR CAREY: Next up is an update on *Keep Your Home California*.

Di?

MS. RICHARDSON: Good morning.

I've asked Linn Warren to come up with me. I'm sort of losing my voice. So if you get lucky enough for it to go all the way, he can step in and take it.

Last month, I'd prepared an update that was in the board packet. And I'll just give you a little bit of an update -- a more recent update -- which I thought I grabbed, and maybe I didn't.

But the bottom line is that we -- in the first six months of the program, we funded just over a thousand transactions. The third quarter, we more than doubled that. So we really feel like the program is doing well and taking off.

We've got about 7,000 homeowners that have either received funding or are in the final stages of funding.

And so far, over 2,500 homeowners have received unemployment assistance over -- I'm sorry, I can't even talk anymore this morning. I've already been on the thing all day.

So we're close to 7,000. We've gone back, we've reevaluated. You know, at certain points, we go back and reevaluate what is working, what isn't, why people are qualifying, why they're not.

Certainly, the single biggest barrier for people getting funding continues to be bank participation. Although we have up to about 50 servicers that are currently signed on -- and that number is continuing to go up -- we have about eight or nine that are currently participating in the Principal Reduction Program. We're continuing to have conversations with the GSEs. And I would describe those conversations as robust.

MR. WARREN: Yes.

MS. RICHARDSON: And we hope to have some news to announce on that front after the first of the year that we think will be very good.

We also have been -- and I think I mentioned this during the last update -- we've become very active with our social media outreach. We do have a Facebook page and a Twitter page, which has been very successful; and it allows people to pass messages on to large groups. We're seeing a large uptick from that.

Those of you that text, you can text the word "HOME" to 55678, and you can get information about the *Keep Your Home California* Program.

We're finding that some people weren't able to remember the phone number or the Web page. So, you know, that's another avenue that we've pursued.

We're getting our average calls -- we're averaging 800 to a thousand calls a day. So we think that our increased media activity has been successful.

We are planning a dedicated drop we've worked with Experian to identify. We gave them a list of borrowers who were successful in getting funding, and they created a whole profile for us of what those borrowers look like, so that we could target those same kinds of people through direct mail. We'll be testing that in the next few weeks.

We'll also begin doing some cinema advertising in the next few weeks. So when you go to the movies to see your holiday movies and you're sitting there -- you know, those ads that play three or four times before your movies start -- there's a good chance that one of them will be *Keep Your Home California*.

You know, I will tell you that as we have continued to reevaluate the program, the Board did -- the CalHFA MAC board did recently take action. And we are in the process of expanding our criteria one more time.

You know, we've always said that we would look at things as we progress. And if we have the capacity to open the spigot, we would be happy to do that.

So for the unemployment program, we're going to extend that to nine months of assistance, to sort of facilitate -- the unemployment situation in California hasn't unfortunately been improving as we had hoped. So we're going to extend our assistance on the unemployment program. We're going to increase our mortgage reinstatement amount from $15,000, to $20,000 in hopes that more borrowers will qualify.

And we're also going to eliminate the cash-out and second-home exemptions from the Principal Reduction Program. And we think that that will facilitate more participation.

So with that, I'll open it up to questions.

MR. GUNNING: So it seems like there's a lot of money left.

MS. RICHARDSON: There's a lot of money.

We have allocated about $1.8 million. But, you know, there is still a lot of money left. And, you know, we're seeing a significant uptick, though, not only in the number of calls, but the number of borrowers that are qualifying and the number of transactions that we're able to complete each month.

CHAIR CAREY: Do we have projections about how we anticipate that money getting out during the life of the program so that we have somebody to compare, to benchmark things to?

MS. RICHARDSON: Yes. And I can send that to you. I don't have that with me.

I know that originally -- you know, we had no idea how many calls we were going to get at the beginning. You know, Claudia and I continue to hope that the program is over in a year. I think that that might be a little Pollyanna of me.

CHAIR CAREY: And a fairly busy next 12 months.

MS. RICHARDSON: Yes, right. It's been pretty busy as it is.

You know, we have the funds available to us until December 31st, 2017.

And I think, Linn, the last projection, we had it between maybe about four years?

MR. WARREN: It would be. I think that what we found with the reinstatement program, we'll probably have to reallocate somewhere in a period of two years. But with the cash-out refi requirement going away, we're going to revisit the Principal Reduction Program and the other ones. And we think that that will be cut in half. I will also add that, as Di said, the banks are continuing to work with us, but not at the speed we would like.

I think the settlement talks and other actions around the banks are going to have an impact on this. And there's going to be some changes in that over the next 12 months or so as things begin to coalesce. And we have a meeting, I believe, in November with the banks in Dallas again to discuss this.

So the short answer to the projection, Mr. Carey, I think we will be revisiting the projections and see what it looks like. But I think we've got enough in play right now to change our assumptions.

MS. RICHARDSON: Right. I think one of the things we've talked about before also is that for our mortgage reinstatement program, we originally anticipated that a lot more of those funds would go along with a modification, that they would be the means to facilitating the modification. And that's been a lot harder for us to accomplish.

We've actually been making significant progress on that end. And we're going to be hosting the call with the other states. You know, the banks are sort of pointing to us now as a model. And if we can get more states to sort of do what we're doing, they might be more willing to participate in that.

CHAIR CAREY: Other questions or comments?

MR. HUNTER: Could you go back to what you said on the exemption cash-out refinancing?

MS. RICHARDSON: Yes. Currently, we had fairly narrow criteria, because we weren't sure what kind of call volume we were going to receive. And we always said that we'd go back and reevaluate. And if we have the capacity to expand the criteria, we would do that.

We think we have that capacity, clearly. And so among the three biggest reasons that people are not being able to participate: Their bank isn't participating in that particular program, they've done some kind of a refi somewhere along the line, or they own a second property.

And the second-property issue, what we're really finding is a lot of these homeowners -- you know, we look at everybody on the note. Quite often, it's their parents co-signed with them, so their parents own a second home, and that's disqualifying them. And that was never really our intent.

The other thing that's happening there is, we firmly believe that if you own a second home, you have other options available to you. But in many cases, their second home is in much worse position than their first. And that's not going to really provide any kind of help.

CHAIR CAREY: There was certainly a lot of discussion around those issues.

MS. RICHARDSON: Yes, there was. And I'm sure there will continue to be.

MR. HUNTER: We actually discussed it.

CHAIR CAREY: Yes.

MR. GUNNING: Given the amount of money left, has there been any consideration to other plans or funding of other programs, like our -- not necessarily our friends at One LA, but other efforts?

MS. RICHARDSON: Yes. Well, actually, you'll recall, we did put out the RFP for the local innovation fund. Three programs were approved by Treasury. One of them is currently operational. It's a San Diego CHW, California --

CHAIR CAREY: Community Housing Works.

MS. RICHARDSON: Thank you -- Community Housing Works.

And that's a program where they're working with smaller community banks to help eliminate second mortgages sort of like the HAFA program at the federal level that most of the bigger banks are signed on to. So that program has actually just gotten started. And we should see some activity there soon.

We did get the One LA program approved for trial. We're waiting for them to take that contract to their city council for approval. That was originally going to happen in September.

MR. WARREN: November.

MS. RICHARDSON: You know, for some reason, it didn't. Now, we're hearing that they're going to try to do that in November. So we're hoping that that program will get going soon.

We have a third program with Sacramento NeighborWorks, in which it's sort of a rent-to-own kind of program, where they work with the homeowner to keep them in the home. And if the borrower goes through some credit counseling and education, they can then repurchase the home.

There are some conflict issues there with existing state law that we're trying to work through with them. And as soon as we can get that resolved, we think that will get up and going.

And we have continued to look at other programs and other alternatives and evaluate other things. And, you know, some states have done a couple of different things. We're going to see how those work and look at their performance. And certainly, if something is really successful, we're not too proud to copy it.

CHAIR CAREY: Questions?

(No response)

CHAIR CAREY: We do have someone in the audience who has requested the opportunity to address the Board on this program.

So Ross Romero from Chicanos Unidos, if you'd like to come up.

MR. ROMERO: Thank you.

My name is Ross Romero, and I'm a housing advocate from Orange County, California. I come here as an individual. But as it's mentioned, I'm a member of the Chicanos Unidos. I'm on the statewide committee of LULAC for housing. I've been involved with various communities organizations in Orange County that deal with housing. And I've been a real-estate professional for over 25 years.

And I got involved with housing, and found out about this by way of a seminar, about a month ago. And to my chagrin, you know, to see how much money was out there. And I would like to address the Board regarding the *Keep Your Home* Program, and what I feel has been the underutilitization -- well, let me preface it by saying, I did get a chance to speak with Ms. Di Richardson, I believe it is, and she answered a lot of my questions coming here, and some of the fine things that they're doing.

But nevertheless, I'd like to go through my presentation real quick.

So I'm here. I feel what has been the underutilization of the $2 billion that has been awarded. As mentioned, I'm involved with many groups, and as such, I've been able to make contact with the groups that are administering this program in Orange County and even statewide.

What troubles me is the low numbers of people that have been able to take advantage of this program to date, particularly considering the housing, the foreclosure debacle that we've been involved with.

According to the Web site, approximately 2,000 people have completed this program, and approximately another 3,000 are in the pipeline. I think she updated the figures.

The Web site also indicates that as many as 100,000 could be eligible for this program. Thus, the approximately 7,000 homeowners will mean that only like 5 percent of the goal of 100,000 has been accomplished by the end of this year.

Now, based on those figures, even if you were to quadruple the output that we had this year, it would still mean that within three years, we wouldn't have even paid out less than 50 percent of the money. And this is what really startles me. Less than half the money would have been spent.

And I think I'm here because, you know, homeowners, they need relief now.

My recommendations that I have -- and as I mentioned, she had clarified some of these -- is that we do need to, in fact, ease the guidelines for qualifying.

You know, in speaking with some of the nonprofits at the beginning of this year, it was very tough.

I can tell you, on a personal basis, I referred about four or five people out. When I found out about it, I said, "We got about $2 billion." And I just put the word out, and some of the people I have already referred have been unable to take advantage of the program.

I think we need to do more outreach and publicity. She's gone over some of those items.

And, you know, with that, maybe even utilizing the realtor organizations, going to the real-estate professionals.

But I think that's very important because, you know, consumers, they're confounded. We've got the foreclosure scams. We've got all these things that are going on. And a lot of times, when you're in this situation, you don't know what's real and what your options are. And it's all about the fact that there is an option.

Me personally, that's the first thing I do, is hand somebody a brochure. It is an option that people need to know they have out there. And for whatever reason, in my opinion, the word has not gone out yet. And I'm happy to see what's happening.

Secondly, increase the funds for the staff of the processing of these applications, either both internally, state employees, as well as, you know, externally, the nonprofits that are processing these applications.

As best hopes, as was mentioned, we get all these applications, we've got to process them. Because people got to know they're going to go into this program, and it's going to be something that's going to work for them.

If they go in there and they get tied up for months, quite honestly, during that period they could lose their house.

Fourth, work towards gaining participation of all major lenders. And that was talked about. But in particular, I'm really let down about the non-participation of the lenders in the mortgage reduction program.

As many of you can recall, two or three years ago, the debate was whether or not, in fact, the banks should be lowering mortgages.

The banks came back and said, "Well, that would have a bad long-term effect. And so it was the consumer wanting this reduction, and looking at that as being an option as opposed to the interest and the overall picture of the banks.

Well, now we have a program that would minimize that for the banks. You know, 50 percent, as I understand, would be given from the program and 50 percent would be contributed from the banks.

And as for our state, I think in the long-term it's going to be great, I can tell you as a real-estate professional. Because one of the problems is that people have this hope that the market is going to turn, and that they would, in fact, be able to at some point sell or refinance or whatever.

And so in the long-term, this will have a very positive effect on the real-estate market and begin to help with the recovery.

I'd like to just close by saying $2 billion. $2 billion. You know, our country is in disarray right now. People are out in the streets, and a lot of that has been fueled by what has happened with this foreclosure debacle. In fact, it's become one of the main points of the people that are out here, you know, basically addressing the concerns about the banks right now.

I can tell you on a personal basis, I have my 81-year-old mother who is sitting in an ICU unit right now in Sacramento, continues to have calls from Indy Mac about her payment, that they're going to put her in foreclosure, over a loan for a house that she has owned for over 30 years, on a loan that was made over a telephone five years ago. You know, this is the desperation. This is where basically, on a personal level, people are just at a point -- and the motivator of why I'm here, we have this money, we need help, we need relief now. This money needs to get out.

All the ratings aside and all this other stuff that you guys deal with, from when I look at the $2.8 billion, and you mention the figure $6 million has already been spent to date, and another three times that is anticipated to be closed, that's $1.8 million.

That's, like, .10 percent of $2 billion.

So you're telling me by the end of the year, only .10 percent of $2 billion will be spent?

You know, we've got $2 billion. And how can we best get it out there?

I would just really -- I don't know what it's going to take. I, for one, with the organizations I'm involved with, would like to advocate with the banks, the lenders, that we could gather more of their participation.

And I thank you for your time.

And I think that just whatever we can be supportive of the efforts being done by the Agency to loosen up the manner in which this money goes out would be great because it's a big issue for many people.

Thank you.

CHAIR CAREY: Thank you very much.

MR. ROMERO: Are there any questions?

CHAIR CAREY: Any questions?

MR. ROMERO: All right, thank you.

MS. CAPPIO: I just have a quick comment that you have my commitment that we will work with you, and that we need all ideas. And I appreciate you coming in and addressing us today.

Thank you.

MR. ROMERO: Thank you.

--o0o--

Item 8. Update and discussion regarding the status of the Mental Health Services Act Program

CHAIR CAREY: Okay, next up, we have an update discussion regarding the Mental Health Services Act Program.

Bob?

MR. DEANER: Good morning.

I've given this update a few times, so I will try to make it quick.

A quick overview.

The MHSA program was money funded for capital costs and operating subsidies for rental units, it can be utilized in existing buildings under rehab, new construction, or even shared housing. We are seeing more shared housing, where a county will actually buy a property, utilize the whole property with the funds. So it's a partnership with DMH, us, and all the county mental health groups.

$400 million was made available to us in 2007. Although the program really didn't kick off until about 2009 because of negotiations with various parties to get the program going, of which two-thirds goes to capital and one-third goes to operating subsidies.

And I'll show some slides shortly that shows how successful we've been to put the money out.

And each county got an allocation. Most counties -- I believe it was 46 or 47 -- participated. There were some outs of the smaller counties, that were allowed to opt out just because the dollars weren't large enough to utilize the program.

So as of June 30th, I had my staff put this together. We've got committed or commitments of about $222 million to date of the $400 million. That's a combination of both the operating subsidy and the capital cost that translates into that $1.5 billion number of leverage we talk about, is the total construction cost of the projects being built.

So if you look down a little bit farther, there's almost 6,000 units that are being built of which 1,600+ are for MHSA.

So a typical deal for us might be a hundred units that are being built for affordable housing and 10 percent of the units will be utilized for the MHSA dollars that we're taking folks that are homeless -- or could be homeless off, and getting them in and getting SSI, and getting them training, and so forth.

And then the operating subsidy helps cover that difference to help keeps the projects running. So a number of units.

And of this almost 6,000 units, almost all those are 100 percent affordable. These are usually deeply affordable projects.

Just some program successes.

Over the last two and a half years, 116 applications from 32 counties, of which 1,500 units were on the rental side. And then I talked about the shared housing. We're seeing more of those, about 132 units.

The smaller counties will buy actual houses and convert a six-bedroom or an eight-unit facility, so they can get 16 MHSA folks, because they can share the units.

A couple more highlights I'll go through quickly. 225 of the units are for seniors today, and 174 are for transition youth.

Some of the counties that have spent all their money: Madera, Merced, and Nevada. That's all good.

And then we are ahead of pace to hit a goal that we -- a benchmark of just the $400 million -- there were other dollars at one point talked about after this to go into the program. But of just the $400 million, we are looking at about 2,500 units. And today, if we're at 1,600 and change, we're ahead of schedule to meet our commitment. So a big success.

And then the numbers kind of speak for

themselves.

We have had some counties that have kicked in additional dollars, which they're allowed to do, $5.3 million. But you can see the $222 million that's either closed or committed.

$43 million at the county level. What that is, is developers that have come into the county and have requested -- they have projects available. They evaluate first, and then they apply to us for the funds.

And then $79 million in pre-applications, which are folks that are calling us, developers with projects and the counties that they believe they can utilize.

So doing my quick math on that, that was $344 million of the $400 million if all those were to come in. Obviously, some will fall out, some will go through.

What I did want to do is show a couple properties here real quick to show you how some of the outcomes came.

This is in Folsom, Folsom Oaks. This is a new construction deal. We provided a $500,000 MHSA loan. There was no operating costs because all the tenants get Section 8.

So in the case where a developer is able to get a local Section 8, they don't need the operating subsidy, which is a good thing. It ends up, that it was 19 units total, and five of the units are MHSA. So this was a great project.

Bay Avenue Seniors is in Capitola, another project we provided a $425,000 capital loan and $375,000 in operating subsidy. And we did five units of 109 units in this project.

And this is a new construction rehab. And the tenants in this will be seniors.

And then the last one is Fireside. And this is a deal that the Board had seen many a times in different variations. We had lots of ups and downs, but we've got it closed. It's in Marin County. I think it took about seven years to get this deal closed. I know I have probably a hundred hours into this deal myself.

But the MHSA loan that went into it helped make this deal close because of a number of things that happened within the project and the delays. Getting five MHSA units on this project actually helped them gap the deal and close it. And it's a total of 50 units. And we provided a $475,000 capital loan, with $250,000 of operating.

And then where that leaves us -- being my group and the program, with the dollars that are in process, the deals that have to close and more deals that we see coming in, we project about 18 months left within the program, somewhere in mid-2013. Because even when we close a loan, if it's new construction, we monitor it all the way through the construction phase. We don't just get them the full four twenty-five. We disburse over time. We have a disbursements group. And then it converts to a permanent loan, and then it gets handed off to Margaret's group in Asset Management.

So we've got a good year and a half left of work to do on this program. And it's utilizing about 80 percent of my staff. It's more manpower than we anticipated just because doing a $500,000 loan is just as much work as doing a $5 million or $20 million bond deal. And I think we have 90+ deals at some level in our shop right now. And it takes a lot of manpower to produce those deals and get them closed.

So a very successful program.

I don't know if Claudia wanted to mention it, or I can, about the MHSA award that we won at the NCSHA.

NCSHA selected our MHSA program in California that CalHFA administers for an award under their special-needs program. So that was a great award that we accepted.

And I give all that credit to my staff because they're the ones that do all the work and put in all the hard hours to get these projects through. Because a lot of these projects have four or five, six, seven layers of subsidy in them. And some of these deals can take years before they close. So lots and lots of work.

So kudos to them for that award. So a very successful program for us.

MS. CAPPIO: Thank you.

CHAIR CAREY: That's great.

MR. DEANER: Do you have any questions?

CHAIR CAREY: Questions? Comments?

MR. HUNTER: I had a lot of involvement with this program from the very beginning, and I've said to people around the state repeatedly, it would never have happened, had it not been for the commitment of CalHFA. And I think one of the things, in terms of the complexity of how these things work, you know, it was like everybody is sitting down and finally agreeing in 2007 that there was money available and it was a good way to use it, and it still took two years to figure out how to make it work. And it was very complex. And some of the things that people were very worried about from the very beginning was not creating ghettos for people with mental illness.

And the fact that so many of these projects have leveraged really beautiful homes -- small, modest apartments but beautiful apartments where they're living, integrated into the society. And these are people that many of them have been homeless for years and years. And some of these projects are really amazing.

And I just really commend the staff and leadership of CalHFA for sticking with us because it's producing great results.

CHAIR CAREY: Great.

MR. DEANER: Thank you.

CHAIR CAREY: It is nice to have a success story, even as we deal with some of the other challenges.

This is what it's all about.

MR. DEANER: Thank you.

--o0o--

Item 9. Discussion of proposed new energy efficiency lending program and funding through the sale of carbon credits

CHAIR CAREY: Next up, discussion of a potential new energy lending program.

Steve?

MR. SPEARS: Thank you, Mr. Chairman.

Just one final note on the MHSA program. During the downturn in the economy, there were a lot of projects that came back and asked if we had any of this money available, because they had a gap in financing because of tax-credit pricing or other funding sources that went away. And we were able to, I think, with the MHSA program -- gap financing is probably not the correct terminology, but we were able to offer this feature and get these projects back on track.

It's hard to say, you know, definitively, these four would never have made it. But I personally believe that they're projects that would not have made it, had it not been for the work of the staff in this program.

The last item here from staff's standpoint, is a new direction, really, that we're thinking about. Claudia and I have been working on this. You have this memo that's been sent.

And, Claudia, I don't know if you want to lead off, but I'll take it whenever you want.

MS. CAPPIO: Sure. And, you know, obviously, the memo was in the packet and the hour is late.

MR. SPEARS: Right.

MS. CAPPIO: But the container we're thinking about is energy efficiency which aligns itself with the Governor's goals of decreasing our carbon footprint and decreasing greenhouse gases.

We'd be establishing a series of tools in order for us to retrofit low- and moderate-income units, both single-family and multiple-family. And then make sure that we have the modeling and data bank available to turn those retrofit projects into carbon offsets. You have to do this following a fairly rigorous verification standard. But once the carbon offset is verified, you have the ability to bank that or to sell it on the voluntary carbon market.

So we believe that this could be a successful program. Carbon markets in general are in their infancy, but we have done research to date, and believe that this should be pursued.

What we're doing now is figuring it all out for you so that we can come back with some specific proposals. And as we say in our memo, the trick will be, obviously, a source of capital. So if any of you have any ideas, we'd be glad to hear them.

Steve?

MR. SPEARS: Well, there are a lot of things going on. It's amazing when you start doing the research, how many people are in our same boat, where they would like to get involved, but it's kind of early in the game.

The California Air Resources Board -- is it the day after tomorrow, I think --

MS. CAPPIO: Yes, right.

MR. SPEARS: -- are meeting to adopt the

regulations to establish a cap-and-trade program that will begin in 2013. This might be part of that. But there are other energy efficiency efforts that are going on, particularly at the CPUC. And they were delivered a study this summer by an outside consultant that said, "If you want to do energy efficiency, you are woefully underfunded to do that. And there are not enough financial projects out there for either single-family or multifamily."

So we're going to be talking to them as well. There is a lot of work to be done yet. But we do have some of the work that has been done for us in the housing area.

Tiny, little MaineHousing got very interested in this. And over a year and a half ago, I had a conversation with the Maine executive director. They went through this process of putting together a verification model for residences, which apparently did not exist anywhere before that.

We have hired the consultant that helped them with this model. It needs to be tweaked for California, and a lot of work done. But when they finished this, and they had a fuel oil program to offer incentives for energy efficiency, that reduced fuel oil consumption, and they were able to generate enough offset credits to sell a four-year-forward contract to Chevrolet for a million dollars. So we figure if tiny, little MaineHousing can do something on that scale, perhaps we might be able to do something similar.

So no promises, just letting you know that we're getting started in this world. It's a very interesting, different world than we normally deal with. But I think it lines up with a lot of what we do.

I hear varying percentages, but somewhere between 25 to 40 percent of all energy consumed in California is in residences, multifamily and single-family. And if you just had a little bit of energy savings in that big segment, it would really create quite a substantial change.

MS. CAPPIO: Just for your information.

CHAIR CAREY: Yes.

MR. SPEARS: Just an information item.

CHAIR CAREY: That's interesting.

MR. HUNTER: Let me just throw in, in the last six months I've talked to four supportive housing developers that are looking for some kind of financial instrument to do energy retrofits. You know, they're talking about their operating margins are so slim, and increasingly, the operating costs related to energy is eating up the profitability -- the sustainability of their projects. And they can't find sources of capital.

One of the groups in Portland did a project that was able to demonstrate that their savings were so immense post the retrofit, that they actually could have afforded commercial loans. But nobody would lend to them because of their asset structures, et cetera.

MR. SPEARS: Right.

MR. HUNTER: So I really, really hope you keep the multifamily retrofit part of this in the forefront, particularly since there are so many now. In our big cities, San Francisco and LA, there are so many supportive housing projects that are really older housing stock and that are aging out of their tax credit compliance periods and that are really targets for this kind of savings.

MR. SPEARS: We've had a couple of discussions with multifamily nonprofit developers. And it seems like the best time to do this is when you're doing all kinds of retrofit on older properties. And you could work this in with everything else.

But the thing they told us was that the energy savings on individually metered multifamily is great savings for the tenants, but there's not enough common area for the building owners to generate that.

So we're trying to figure out an incentive program that may be funded by some of the sale of these offset credits. But there's also some on-bill financial products that you can have the tenants share in the cost of the financing for that savings. And they net savings on the utility bill, but they help pay that. And then that's also a revenue stream that's -- you know, it's on their utility bill. It's pretty secure. So we might be able to figure out a financing structure built around that.

So a lot of thoughts going on. But we had one conversation, one person that said, "Look, we want to do this, but I can't take this to my board and have it cost us money at this point in the economy. It's got to be a break-even analysis for us at this point."

MS. CAPPIO: Thank you.

CHAIR CAREY: Great.

--oOo--

Item 10. Reports

CHAIR CAREY: Any items in the reports that deserve specific attention?

(No response)

CHAIR CAREY: Great.

Now, November, have we reached a decision about the need for a November meeting?

MS. CAPPIO: Not yet.

CHAIR CAREY: Okay, so keep it on your calendars.

MS. CAPPIO: Right.

CHAIR CAREY: And I heard earlier the potential of a potentiality of a special meeting at some point?

MS. CAPPIO: If not November, then perhaps before the end of the year to deal with it, if TCLP -- If the deal points come in, we'd have to figure that out; and it may require action from the Board.

CHAIR CAREY: Okay, great.

--o0o--

Item 11. Discussion of other Board matters

CHAIR CAREY: Any other board matters?

(No response)

--o0o--

Item 12. Public Testimony

CHAIR CAREY: With that, this is the moment we set aside for members of the public to address the Board on matters that are not on the agenda.

If there's anyone who would like to speak to the board, please indicate.

(No response)

--o0o--

Item 13. Adjournment

CHAIR CAREY: Seeing none, we are adjourned.

(Gavel sounded.)

(The Board of Directors meeting concluded at 12:30 p.m.)

--o0o--

REPORTER'S CERTIFICATE

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand on the 4th day of November 2011.

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

THIS PAGE INTENTIONALLY LEFT BLANK