STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Thursday, September 20, 2012
9:30 a.m.

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Minutes approved by the Board of Directors at its meeting held:
November 13, 2012

Attest:

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

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APPEARANCES

Board of Directors Present

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

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing and Redevelopment Agency

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

RUSSIA CHAVIS
for Brian P. Kelly
Acting Secretary
Business, Transportation & Housing
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

JACK SHINE
Chairman
American Beauty Development Co.

LINN WARREN
Director
Department of Housing and Community Development
State of California

A P P E A R A N C E S

Participating CalHFA Staff

KENNETH H. GIEBEL
Director of Marketing

TIM HSU
Financing Risk Manager

VICTOR J. JAMES
General Counsel

JAMES S.L. MORGAN
Acting Chief
Multifamily Programs

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

TONY SERTICH
Financing Officer

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BE IT REMEMBERED that on Thursday, September 20, 2012, commencing at the hour of 9:40 a.m., at Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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ACTING CHAIR CAREY: Good morning, and welcome to the September meeting of the California Housing Finance Agency Board of Directors.

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Item 1. Roll Call

ACTING CHAIR CAREY: Our first order of business is roll call.

MS. OJIMA: Thank you.

Mr. Gunning?

MR. GUNNING: Here.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Here.

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

MS. CARROLL: Katie Carroll for Treasurer Lockyer.

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Mr. Smith?

(No response.)

MS. OJIMA: Ms. Chavis for Mr. Kelly?

MR. CHAVIS: Here.

MS. OJIMA: Mr. Warren?

MR. WARREN: Here.

MS. OJIMA: Ms. Boatman-Patterson?

MS. BOATMAN-PATTERSON: Here.

MS. OJIMA: Mr. Alex?

(No response.)

MS. OJIMA: Ms. Matosantos?

(No response.)

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Here.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIR CAREY: Thank you.

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Item 2. Approval of Minutes

ACTING CHAIR CAREY: The next item is approval of the minutes of May 17^{th}.

Any corrections or concerns?

MR. HUNTER: Move approval.

ACTING CHAIR CAREY: Motion?

MR. SHINE: Second.

ACTING CHAIR CAREY: Did I hear a second?

MR. SHINE: Yes.

ACTING CHAIR CAREY: The second?

MS. OJIMA: Mr. Shine.

ACTING CHAIR CAREY: Okay, roll call, please.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Abstain.

MS. OJIMA: Thank you.

Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Ms. Boatman-Patterson?

MS. BOATMAN-PATTERSON: Not voting.

MS. OJIMA: Thank you.

Mr. Carey?

ACTING CHAIR CAREY: Yes.

MS. OJIMA: Thank you.

The minutes have been approved.

ACTING CHAIR CAREY: Thank you.

Item 3. Chairman/Executive Director Comments

ACTING CHAIR CAREY: Okay, with that, we'll move on.

I have no specific comments, so I'm going to turn it over to our Executive Director, Claudia Cappio.

MS. CAPPIO: Good morning. I have a number of items that may be of interest to the Board and the public.

We had good news from Standard & Poor's last week. Our credit rating held steady. We are very pleased about that.

And I'd like to thank staff. They have done an excellent job in aggressively managing our portfolio and our finances to stabilize us these last few years.

So I can say, why not? It's finally paying off, even though it may not be anything but luck. But I hope that we continue to do well.

We have two new Board members this morning.

I'd like to formally introduce Ms. Russia Chavis. She is the deputy secretary, or undersecretary to Business, Transportation, and Housing, and has been a big part of the Governor's Reorganization Plan implementation effort.

So we'd like to welcome you.

MS. CHAVIS: Thank you.

MS. CAPPIO: And Tia Boatman-Patterson was appointed last week by Speaker Perez.

Welcome.

MS. BOATMAN-PATTERSON: Thank you.

MS. CAPPIO: A number of concerns have been raised recently about what CalHFA has to gain or lose through the ability of us to pursue certain actions against financial institutions for fraud or other inconsistencies with the mortgage crisis and the way certain financial transactions were handled.

I just want to note that we have been very aggressive in pursuing these, as has the Attorney General. And we've recovered over $100,000 so far. And either it has been received or agreed upon. And at least three other cases are under review.

In addition to that, a number of questions and concerns have been raised about the LIBOR issue, and the tampering of that rate with the way certain transactions were undertaken. And we also are in the midst of reviewing that. And both the Attorney General and Treasurer are also very interested in that. And we will be informing you about what actions we're going to take as those reviews are undertaken and completed.

Preliminary indications are that we do have some exposure to the LIBOR issue. And, again, we will be looking at that very closely, and are in contact with the Attorney General, who is pursuing a case -- or could pursue a case.

The Affordable Housing Costs Study, which I've mentioned here a few times, is well underway. We have retained a consultant who has been working with the advisory committee; and we are furiously looking at those factors in costs that are likely the most meaningful, and the model -- the regression model and the examples from both TCAC and the private sector will be run into that model in the next couple of months; and preliminary results are expected by spring.

I was a little too aggressive in thinking that we may get results by the end of the year. But it's better to make sure that you know things are cooked properly; or as my mom used to tell me, in painting my room, preparation is everything. So the painting is the easy part.

So we are looking at that and making sure that we have a handle on those factors and get good feedback to both the executive committee managing that study, which is the four housing entities -- TCAC, CDLAC, HCD, and CalHFA -- as well as the advisory committee.

I indicated last time that we could be distributing the minutes to you earlier. We did not do that this time. But I just want to tell you, it won't happen again. And the minutes are prepared in sufficient time to send those on to you as you've requested earlier than receiving them in the Board packet.

And finally, we had talked about iPads for Board members who wanted them as a way to ease both packet preparation, the costs and time that we ensue to prepare the packets, as well as just ease of carrying. And we've had to put that on pause because the Governor has asked us to look at only essential purchases. So I'm in the midst of trying to rationalize that that would be a good idea, and actually save us money in the long run. But we're still working on that. So those are delayed.

MR. WARREN: If I may, Claudia, my iPad is my own. I always make public disclosure at all times.

MS. CAPPIO: And here's another one, and that's also…

ACTING CHAIR CAREY: This actually isn't my own. It was provided to me by another board.

MR. WARREN: HCD does not purchase iPads. I want that on the record. And thank you very much.

MS. CAPPIO: Okay, you're welcome.

Thank you, Mr. Warren.

That's all I had for my report.

ACTING CHAIR CAREY: Thank you.

Any questions or…

(No response)

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Item 4. Review and discuss major components, issues, and concerns of the Governor's Reorganization Plan (GRP)

ACTING CHAIR CAREY: Okay, with that, we will move on to presentation on implementation of the Governor's Reorganization Plan.

These are actually two separate people you see *(pointing to Ms. Cappio)*.

MS. CAPPIO: Obviously, the record reflects that I am now in my role as Executive Director.

You all, I think, are aware that the Governor had published and submitted a reorganization plan for some fairly major changes across State government in order to increase efficiency and effectiveness of what we do. And that plan was issued earlier this year, and was submitted to a group called the "Little Hoover Commission," who reviewed that plan, and actually held hearings on the plan in March and April.

Both Mr. Warren and I testified before that commission on our aspect of this plan.

And to put it simply, the way CalHFA and HCD would be affected, potentially, by this plan, is that

Business, Transportation, and Housing would be broken up as an agency. Transportation would become its own agency, and the business and housing functions of BT&H would move to the business and consumer services agency.

We also would change our positions in space slightly. And I would note that CalHFA would no longer directly report to the BT&H secretary. That would be done through HCD.

I will note that to you, that we were adamant in our testimony regarding CalHFA's continuing ability to act independently, and make sure that we were in a position to manage risk and respond to business needs effectively if we were going to continue in the mode of work that we had historically, which is basically to take advantage of the capital markets, to issue bonds, and make sure that we're taking risks and managing risks effectively in those capital markets.

The Little Hoover Commission submitted their report to the Legislature, and the Legislature decided to take no action on it, which means that it became final. And there was some legislation as part of the legislative session last year to enact those changes through GRP -- through what is known as the GRP.

Now, our task or tasks is to implement those recommendations. And to that end, the Governor's Office has asked us to put together a document called a "Project Initiation Document," or PID. I'll just leave it there.

And that document is going to be a thorough review of both organizations and an analysis of those areas -- organizational and functional areas that we're able to align, consolidate, and coordinate on.

We have some preliminary findings, and they're basically statements of facts that we believe will not change.

HCD will continue to administer solely the green-building codes and mobile-home regs.

CalHFA, similarly, will continue to solely look at our servicing unit -- Loan Servicing unit, our portfolio of single-family homes, and the lending of and portfolio management of our bonds that we issue. However, there are a number of other functions in programmatic areas that we're looking at as key areas of opportunity to consolidate, coordinate, and align ourselves with. And those fall into a couple of program areas.

A big one is Asset Management. We both have portfolios of multiple-family homes. And I think that we could do well to work together in looking at best practices, and making sure that we cover our geographic areas in a way that we should to ensure compliance and monitoring requirements.

In the area of financial assistance, I think we both look at the world differently, but there is tremendous opportunity to coordinate and align both agencies -- the way both agencies pursue financial assistance and subsidies and loans with affordable housing projects.

And finally, in the area of housing policy, HCD has a very sophisticated and well-developed policy function. Historically, CalHFA has had a marketing and communications function, which in some degree, gave us research and let us know findings and analysis on certain loan products or other information. But a more robust function that operates in each agency would, I think, do well as we pursue the future of affordable housing services and finances in the state of California.

The results of this analysis are still being done, but we feel that those three areas are the key areas of opportunity.

We have also been asked to look at IT, legislation, legal, administration, and communication. And preliminary results, we have been through those, and feel that there is less to offer in aligning or consolidating those functions at this point.

I gave you some key guiding principles that we've identified in our work. Because this is an ongoing effort and the final decision, unfortunately, it does not rest with me but with the Governor. This is still in process. But I wanted to give the Board an opportunity to review where we've been, what we're thinking about, and obviously ask for comments, concerns, or questions that should be followed up on; because this is pretty much perfect timing to do so, since nothing is final yet.

So just to briefly give you a sense of those guiding principles, we recognize the importance of keeping CalHFA's structure intact, its independent status and authority, and the fact that we are governed by an independent board.

Both agencies are in agreement that programmatic and administrative differences essentially stem from CalHFA's position as a self-sufficient lending institution.

Third, given CalHFA's risk-management function and a need to respond to business needs, this is critical to maintain if we are to look at financial and operational efficiencies and effectiveness and success in the future.

If those tools that CalHFA has brought to the table in the last 35 years are deemed not to be as important, this is less of a concern. But if, what we bring to the affordable housing table is deemed important, we need that latitude and independence and separate authority to do our work successfully.

And finally, both agencies can work more effectively, we believe, and better to provide affordable housing services through increased coordination and collaboration.

So that's where we're headed, at least individually, both CalHFA and HCD have been working effectively together. That's where we are now. And I will, obviously, alert you and inform you as the process proceeds.

At this point, we're looking at that PID document being delivered to the Governor at the end of October. And they'll take it and review it; and any legislative or other changes that may be necessary, would go late December or early next year. And then we would be directed, whatever happens, into full implementation of the direction that is given to us.

And with that, I'll end my comments and open it up for concerns or questions.

ACTING CHAIR CAREY: Thank you.

Questions?

MR. GUNNING: Mr. Chair?

So, Claudia, given that scenario, what's your sense of timing then? Is this the middle of next year? The Governor's next budget?

MS. CAPPIO: Well, the big time frame is July 1, 2013. But we are already working on changes. It's been a very informative process to form these interagency working groups from both agencies, and figure out where the differences and similarities are, as well as identify what we can do better. And some stuff, it was such -- I won't say a "no brainer," but it was so obvious, that we're doing that now. We go, "Wow, this is a great idea." And we're beginning to do that as we speak.

But the changes that may be directed would come down, I believe, early next year; and we would be given the first part of 2013 to be ready to pull the trigger on July 1, 2013.

ACTING CHAIR CAREY: Thoughts?

(No response)

ACTING CHAIR CAREY: I tell you, I really appreciate what seems to me a rather thoughtful approach to coordination and consolidation where it makes sense, and maintaining separation where it makes sense also, rather than just throwing it all into the sausage maker and trying to make it all one.

So I applaud the efforts, and I think

particularly with the leadership of both sides, it's got great opportunity for success.

Just, in the long, big picture, I am concerned about the point you make about the importance of the independence of CalHFA. And I appreciate, obviously, the commitment to the separate governance structure and the role of the Board.

I wonder about the reporting relationship. Not today, because there is such an excellent working relationship, obviously, with intense knowledge of both sides of the street and HCD. But long-term, it seems to me that there could be a time when that reporting channel for the Executive Director of CalHFA could cause some constraints, which I think potentially filters all the way to the Board. Because, in essence, the Board works through the Executive Director.

And so I wonder what your thoughts are about how that will work long-term.

MS. CAPPIO: I guess I'm thinking that this is an iterative and evolutionary process.

And given the historic relationships sometimes worked between the agencies and sometimes didn't, I think I would be accurate in that assessment. We need to formalize those parts of our relationship that are important to the alignment and coordination of functions as we go along, through revisions to interagency agreements or other formal arrangements, so that those are institutionalized.

Don't forget, we're trying to get two cultures that are very different to get to work together better. We will have to figure that out as we go along. And I guess I feel very fortunate that I'm working with Linn because we have that relationship where we can close the door and go at it. Because, I mean, that's what it's going to take. It's a very intimate process here that happens; that if we are going to continue to be genuine about what's really going to work and what's not going to work for our own agencies -- and I can safely say, over the last two weeks, with the preparation of that report, we've had our moments.

So we will continue to do that. And as long as that's there, I think that will lead -- that will be sort of the leader of formalizing those aspects where we can. Because I completely agree with you, Chair Carey, that you can't rely on personalities. You've got to do this for the long haul. And that's the tricky part.

And collaboration is much harder than sort of the, "Nope, we're going to do it this way" kind of thing. And we'll get there. I'm confident that we're going to get there. But it's a point well taken.

ACTING CHAIR CAREY: Thank you.

Other comments or thoughts?

(No response)

ACTING CHAIR CAREY: So early next year, would likely be the…?

MS. CAPPIO: Yes, in November, during our meeting, I will report on a progress report. But that is what we've been told is the process. And as it gets formalized and, obviously, as it gets made public, you will be informed. And if there is anything that affects your authority or the relationship that you now have with me, I will obviously alert you because it's very important that we would review and consider that.

ACTING CHAIR CAREY: And I would assume that it will play out in the first iteration of the budget?

MS. CAPPIO: Yes, that's the plan. That's correct, in the first part of the legislative -- getting the cleanup legislation, or whatever legislation may come to clarify.

ACTING CHAIR CAREY: Thank you.

MS. CAPPIO: You bet.

ACTING CHAIR CAREY: Okay, with that, we will move on.

And our next item of business is a project. And that is, discussion, recommendation, possible action regarding a loan commitment for -- did I miss something?

Sorry, it's not the project yet.

--oOo--

Item 5. Update on Multifamily Portfolio Preservation Program using HUD Risk Share

ACTING CHAIR CAREY: Okay, it is Update on Multifamily Portfolio Preservation Program using HUD Risk Share.

Sorry for confusing it.

MR. MORGAN: That's okay. It's been four years. I'm excited, too.

All right, it's just an update of what we've got going on this year for projected year-end. Given the amount of activity -- the flurry of activity we've had the last four to six weeks, we've finalized some numbers. And right now, we're at $78 million in total loan and bond issuance.

All these loans will have risk-share insurance, HUD risk-share insurance, and all these loans will have a 17-year maturity date. HUD risk-share has been in place since 1994, and we just reactivated it this past April.

That $78 million that you see is represented by ten projects -- basically Southern California and Northern California -- representing over 755 units, both senior and family.

The yield maintenance fee that we'll be collecting -- or a prepayment, if you will, for payoff of the bonds early -- early payoff of the bonds, will be $3,151,000. However, when you include our loan fees and our issuance fees, it will be over $4.5 million for this program, for this year.

Woodbridge, which Mr. Carey had mentioned, the next project, is scheduled to close on October 23rd, and it's up for approval today. That's one of the ten. The remaining nine projects are all scheduled to close on December 12th.

Out of those nine, six are scheduled for the Board on November 13th. And out of the other three, the remaining three, because of Claudia's ability to approve loan commitments of $4 million and under, will be scheduled for a senior loan committee for final commitment sometime in November.

And there is one other bullet that I ran out of room, and I have a one-page requirement. For the first quarter 2013, we had a really tight time-line giving the roll-out of our program. So we rolled it out in May, and we teed up quite a few projects. This is what you have, ten. But we started out with about 15, 20.

That said, for the first quarter 2013, we'll have seven projects ready to go. I've talked to all the developers there. They're ready to move forward, representing about 400 units at $40 million. So half that number, the first quarter 2013 is ready to go.

That's your update for our HUD Risk Share Program.

ACTING CHAIR CAREY: Any questions?

(No response)

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Item 6. Discussion, recommendation, and possible action regarding final loan commitment for the Woodbridge Village Apartments, #12-041-R/N, 50 units, St. Helena/Napa

ACTING CHAIR CAREY: Okay, moving on.

Okay, now, we are up to Woodbridge Village Apartments.

MR. MORGAN: Yes. Woodbridge, we're bringing here for a recommendation for final commitment.

Woodbridge is an acq/rehab loan and a permanent loan. We are requesting $6,720,000 for the acq/rehab piece and $5,310,000 for the permanent loan piece. This will net a yield maintenance of about $187,000.

This project is a 50-unit project, senior project, located in St. Helena. It's a good time to visit. It's a good time to visit.

100 percent project-based Section 8. That contract has been -- the comfort letter has been approved for 20 years; and will take place as of June next year, 2013, immediately after the rehab period.

This is the very first project that was constructed and financed by CalHFA in 1978, and now it's the very first loan applicant that we've had under the Preservation Loan Program, the first loan in four years. So how coincidental is that?

And part of our Preservation Loan Program is implementing deeper affordability and also green-energy efficiencies, not to mention water-conservation measures.

This project, as stated within the write-up, is about 32 percent energy savings, which is significant for this project -- in addition, to where it's located, in a high-cost area, and where there's nothing on the horizon for five years in that St. Helena, Yountville, Napa County area.

With that, we, in Multifamily, and along with Finance, we're offering incentives via interest rate to those developers wishing to achieve higher energy savings. We gave them benchmarks. And then for this project, given the energy savings and the location, they had changed 50 basis point discounts. So the underwriting rate was 5.25 when we started, and with that savings, is 4.75.

So approximately $55,000 per unit in rehab. In the write-up, we do mention that there not be a relocation at that time, but there is going to be a relocation. We did park $50,000 aside for that. We set $50,000 aside for that. They'll be temporarily housed in the Staybridge Suites, which is about 30 miles away in Fairfield, with provided transportation to and fro, meals, whatever their needs are.

They built it in four days. We aren't anticipating any more than three.

And for this deal, there's also a seller take-back note of a million dollars, 5 percent for 35 years. It equates to about $60,000 annually. And if you threw that in debt servicewide, it could still cover, even out of operations, one time coverage. However, this will be set up at this time to be taken out of distribution.

We've got some fancy pictures for you.

You can see the little red dot in the center is St. Helena, Woodbridge Village Apartments.

To the north, that yellow line is the Silverado Trail, which is an infamous wine/cycling road for a cyclist.

And the right, south, where you see the arrow, is Highway 29. So it's perfectly located for the seniors and their wine tasting. It's good to have seniors wine tasting.

ACTING CHAIR CAREY: As long as they're riding bikes.

MR. MORGAN: There's a closer view, an outline of the project. The grounds are absolutely fabulous. But I just thought I would give you an overview of what it looks like from the top.

There is a side shot there from the community room, to the back of the two-story. Those are 16 one-bedroom apartments served with an elevator.

Nice cottages, side by side. Lots of trees.

And then another one. She didn't want a picture taken.

With the rents here, you can see that we have our 50s, our 60s, our Section 8 rents, and market-rate rents.

The Section 8 rents were just approved. It was a marked-up to market rent approval of $1,300 net rents. The existing rents on the project for Section 8 were $806 for one-bedrooms, regular; $840 for the one-bedrooms in the elevator units.

And for the one two-bedroom -- because there's two two-bedrooms, and one is a manager's unit -- was $854. So those achieved approval to mark up to market from that $840 to $1,300, which is really good for the project.

It gives cash flow and the ability to be able to view the amount of work that's needed, not to mention the amount of green work that we're putting in the project, too: Solar energy, solar hot water heaters, dual-pane windows, dual-pane sliders. And at the end of the day, we're all getting rice in our bowl here.

So I'll take any questions.

ACTING CHAIR CAREY: Yes?

MS. BOATMAN-PATTERSON: You said the HAP contract was just approved.

Is that for an additional 40 years?

MR. MORGAN: An additional 20.

MS. BOATMAN-PATTERSON: Additional 20?

MR. MORGAN: Additional 20.

MR. WARREN: And, Jim, the HAP contract, that is based on annual appropriations; is that correct?

MR. MORGAN: That's correct, subject to annual appropriations.

MR. WARREN: Okay, just an additional comment, the loan product isn't really new for CalHFA. So your cash flow has it ending in year 2016 or 2017, which makes sense.

It may make sense to have some sort of analysis of what a refinancing scenario might look like. Cap rates, loads, things like that might be helpful just to give the Board a sense. As the contract actually continues past that, it may be helpful to see if there's any refinance risk in year 2016.

MR. MORGAN: Okay.

MR. WARREN: But otherwise, the cashflow appears to be adequate for the loan.

MR. MORGAN: We'll incorporate that in the spreadsheet so you can see that going through the HAP period.

MR. WARREN: Okay.

ACTING CHAIR CAREY: Other questions?

MR. HUNTER: Yes, I have a question. I may be doing the math wrong in my head, but did the increase in the rents in the Section 8, does that increase the rent burden of any of the tenants?

MR. MORGAN: No, no. The tenants will continue to pay 30 percent of their income --

MR. HUNTER: Okay, so their income levels are…

MR. MORGAN: -- towards rents. And most of the tenants are -- they're Section 8 -- or Social Security, so…

MR. HUNTER: Okay.

ACTING CHAIR CAREY: I had one minor question, mainly for self-interest. On the site, on the zoning --

MR. MORGAN: Yes.

ACTING CHAIR CAREY: -- it says -- I think it may be a typo. It says that the density range is no more than 16.1 to 28 units per acre.

Doesn't that mean, shouldn't it be that it's no less than 16.1? That's the only way this would be non-conforming. Or is it, in fact, not non-conforming?

That paragraph on the side.

MR. MORGAN: "Density rate of no more than 16.1…" -- no, that's correct, no more than 16.1 to 28 units.

ACTING CHAIR CAREY: But it's not more than 16, which would make it, as I understand it, not legally, a nonconforming use.

MR. MORGAN: Yes. Okay, not less than 16, yes.

ACTING CHAIR CAREY: Not less. So they have a prescriptive zoning that says you've got to be at least this level?

MR. MORGAN: Yes. That's correct.

ACTING CHAIR CAREY: Okay, thank you.

Other questions?

(No response)

ACTING CHAIR CAREY: We do have a resolution for approval.

MR. HUNTER: I'll move approval.

MR. WARREN: I'll second.

ACTING CHAIR CAREY: Okay, it has been moved and seconded.

Roll call, please.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Ms. Boatman-Patterson?

MS. BOATMAN-PATTERSON: Aye.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Aye.

MS. OJIMA: Resolution 12-09 has been approved.

MR. MORGAN: Thank you.

ACTING CHAIR CAREY: Thank you.

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Item 7. Discussion, recommendation, and possible action regarding the adoption of a resolution authorizing a Temporary Credit and Liquidity Program (TCLP) Extension for the single family program Home Mortgage Revenue Bonds

ACTING CHAIR CAREY: Moving on to Item 7, discussion, recommendation, and possible action regarding the adoption of a resolution on the Temporary Credit Liquidity Program, TCLP.

Mr. Hsu?

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

Recently, I've had the honor of representing Claudia at other State committees and boards. And they have been very good learning experiences. And in particular, they have made me think a lot about those committees and board meetings and this board meeting. And they had made me wonder if I ought to be more brief in my remarks and presentation to this board.

But not today.

I'll continue pondering on that, but not today.

This particular resolution may seem very straightforward. But I'd like to take the opportunity to emphasize how -- and have a discussion with the Board of how important this is to the Agency, and at the same time, tie together some of the developments of the Agency, and trying to present this as an ongoing effort to restructure the Agency's balance sheet.

And along the way, I'm hoping to also answer two extremely important questions: Why do we need this extension, in particular; and also, what are we doing to reduce our need and reliance on this program?

First, what is TCLP? We have had this program for three years, and we refer to it as if we have known it for quite some time.

Just a brief description of the program: In 2009, the U.S. Department of Treasury, along with the GSEs, Fannie Mae and Freddie Mac, launched this Temporary Credit and Liquidity Program to help state and local housing finance agencies who have variable-rate bonds who are dealing with puts and also had a hard time finding replacements for these letters of credit.

In short, the Agency's variable-rate bonds needed a letter of credit for them to operate correctly in the marketplace. In order to make them marketable and keeping the rates down, you really do need a very solid letter of credit backed by a solid guarantor.

And as the financial market blew up, some of the banks that provided the Agency letters of credit, they were undergoing their own credit issues; and, as such, it affected the performance of these variable-rate bonds. And that's when this program was introduced.

So why do we still need TCLP? The Agency continues to rely on TCLP to support its financial viability.

And the two key reasons why we still need this is that:

The Agency still needs to stabilize its credit ratings. I think that Claudia mentioned earlier that we do have a wind at our back here. We did receive a confirmation on our ratings on Tuesday.

And the second reason is that as the financial market, post the financial crisis, the marketplace for this letter of credit has also shrunk a lot. And the Agency believes that in order to find private-market replacements with TCLP, we also need to reduce this exposure, so that the marketplace can digest the amount that we need to replace TCLP.

And I'm going to talk about these two reasons a little bit. These are segues, if you will, for me to discuss some of the other developments in the Agency.

Some of the more seasoned Board members may know that for the last three years, the Agency has suffered downgrades every year for the last three years. In 2009, if you go to page eight, this is a history of our ratings over the last couple of years. In 2009, we were first downgraded, and in '10 and '11.

This year, we're hoping to break that streak. And we have one half of that streak completed. And as Claudia mentioned earlier, on Tuesday, our rating was affirmed by S & P. Or more to the point, they didn't downgrade us.

And in their report, they said some good things about the Agency.

On the positive front, they said that CalHFA's management has been very proactive in addressing the many challenges it faces. But to be sure, it was also cautious. They said that "CalHFA's objective to reduce its risk profile remains an ongoing task that has an uncertain future. This is because some of the greatest challenges facing the Agency are variables that are beyond its control."

And I think that we cannot get away from that. I think that the fact that the Agency's risk profile is still very much a function of the general real-estate market is true. The fact that the Agency does still retain some risks which are affected by the general interest-rate trends are also true. And as you all know, that this QE Infinity that was launched last week, is keeping rates low, and that does hurt the Agency in a different way.

And lastly, is that it mentioned that the municipal bond market for taxes and housing bonds still leaves a lot to be desired.

But on balance, we think that: Are we better off than where we were last year, where we were 24 months ago? And we think that we are much better off than we were 12, 24 months ago. Delinquency rates are down. We have reduced our debt -- our variable-rate bond exposure a lot. And we're going to get to that in a second. And we have also reduced our swap notional exposure by a lot as well.

So on balance, I think there is still a need for caution, but we're certainly better off than we were 12 or 24 months ago.

If we had the foresight, we probably would have just retained one rating agency; but we have two rating agencies. So we have one win, as we mentioned that S & P affirmed our ratings two days ago. But we're now waiting for Moody's to affirm our ratings.

In July, however, Moody's put both of our credits on review for downgrade. And this was triggered by their own review for downgrade for Genworth Mortgage

Insurance Corporation, which is a key counterparty for the Agency because they reinsure about 40 percent of our single-family loans.

So, again, the rating action on Genworth caused the rating action on the agencies, and they decided to put both of our ratings on review for watch -- review for downgrade. They used to call it "watch for downgrade."

But you might know that the reinsurance from Genworth is related to our single-family portfolio. So you might ask the question of, why did they put both of our ratings on watch for downgrade?

This chart, which could be familiar to some Board members, shows that Genworth reinsurance is supporting the HMRB indenture, in orange, which is our single-family indenture. So that an exposure is directly flowing into that orange box, which is, again, that single-family indenture.

But we do have a reimbursement relationship between the orange box and the blue box, the blue box being the Agency's General Obligation credit. And that reimbursement relationship is the General Obligation's place, if you will, of paying for the swap net payments to the counterparties first. And if the HMRB indenture is able, it reimburses those payments to the blue box, the General Obligation.

And it is that reimbursement relationship that caused the Moody's analyst to put both of our ratings on watch for downgrade.

So one might ask the question that, "Well, suppose Genworth is, indeed, downgraded? How does that impact us?"

And with your indulgence, I'm going to do a little math on this chart. The insurance in force from Genworth is $1.4 billion. That is to say, that on $1.4 billion loan balances, we carry reinsurance from Genworth. And the risk in force is almost $400 million. They don't guarantee the whole -- suppose the loan is a hundred dollars. They're not on the hook for the entire hundred dollars if it were to go to zero. They're only on the hook for 75 percent of the top 35 percent.

Now, not all of that risk in force is being tested by the rating agencies. What that means is that they don't suppose that the entire $1.4 billion will go to foreclosure. Roughly speaking, it's our guess that they are testing about half of that balance. So they are testing about $700 million of those loans would go to foreclosure, resulting in a claim put to Genworth that's in the neighborhood of about $200 million.

And I would emphasize that the rating agencies hold these numbers very close to their chests. This is our best guess of what we think will be the impact. So, again, the $200 million is what's really been tested in their stress model.

And at this time, Genworth is rated Ba1, and we're getting 45 percent credit for their guarantee. So 45 percent of $200 million will result in $90 million. So what that means is -- just to reiterate -- what that means is that although we have $400 million of risk are in force in Genworth, we are only getting a $90 million credit from the rating agencies just because of where they are now.

Now, if they were to be downgraded one notch, that credit would fall from 45 percent to 35 percent, a loss of 10 percent. So that would mean that we would lose $20 million.

And this sort of plays itself out. So for two notches, we lose another 10 percent, we'll go to 25 percent and we'll lose another incremental $20 million, by cumulative, $40 million.

And if there were to be a downgrade of three notches, we would get actually no credits anymore, and we would lose the entire $90 million of guarantee.

So I'm hoping to answer the question here of: Well, if Genworth were to be downgraded, what happened? What is the impact in terms of their guarantee?

So, generally speaking, this is a four-point-some billion dollar indenture.

We tend to believe that a one- or two-notch downgrade is potentially sustainable by the equity that's inside an indenture, and may or may not cause an actual downgrade.

But at some point, I think in our discussions with the Board, we have also been talking about certain rating thresholds that we would like to maintain.

So on page 7, I kind of went through just the dollars and cents, if you will, if they were to be downgraded.

And then on page 8, what I'm hoping to sort of gain some insight into, is that these dollars and cents, how did they translate into what might potentially happen to our credits?

And you will see that where we are now in terms of that orange box, which is HMRB, which is on the right-hand side of the slide, we are currently at BBB flat, or Baa2 rating, which is highlighted in yellow. And we have been saying for quite some time that the rating threshold that we'd like to maintain out of that HMRB indenture, in the orange box, is at the investment threshold.

So you might argue that, ideally, I'd like to maintain the rating the way it is now; but you might argue that we have one notch of downgrade to go before we can test this investment-grade threshold. And the reason why the investment-grade threshold is important, is that we need to maintain the investment-grade threshold under the TCLP documents in order to continue to reimburse the G.O. for the swap payments that the G.O. makes on behalf of the orange box.

So in summary, though we do have a small step in the right direction in gaining rating affirmation from S & P, there is still some degree of uncertainty on our credits. And, as such, it's very difficult to have a discussion with a financial entity to give us lines of credit when there is still some credit uncertainty.

I should mention also that this investment-grade threshold on TCLP, which is what we're showing here on HMRB, that is a TCLP requirement. And we have also embarked on a discussion with Treasury and the GSEs about whether or not they would be amenable to adjusting down, downwards, that requirement which would potentially, if you will, give us more notches of downgrades to work with.

By the way, I should pause. If there are any questions, I would like to take them as you might have them.

ACTING CHAIR CAREY: Questions?

MR. WARREN: Just on the Genworth issue, Tim. Have we had any issues with Genworth not honoring claims, or requiring putback on loans, as they have with other lenders around the country? Were they paying as agreed? Or largely paying as agreed?

MR. HSU: I think that is actually a fantastic question.

There are times in which folks ask us about, "Well, has Genworth been paying?" And then generally their question is that "I like to see how much they've been paying."

The better question is the one that Linn has, is the rescission rate, meaning, you put in a claim, and they deny the claim.

And industrywide, I believe that in their portfolio -- it's been a while since I've actually seen the actual stats -- but I believe that this is the major way for the mortgage insurers to preserve their capital, by denying claims, and then basically go into battle about whether or not the claim is good or not.

I believe in most of their portfolios, their rescission rate is north of 30 percent. So for every hundred claims submitted, they deny more than 30 loans. In our portfolio, we haven't had a claim denied or a rescission this year, nor last calendar year. And then average to date, the rescission rate is .4 percent, so four in 1,000.

MR. WARREN: And there is nothing on the horizon right now structurally, as far as how Genworth is organized, that would lead you to believe they may jettison the MI unit as part of a corporate restructuring, or cut them off from capital sources?

MR. HSU: In the rating report -- in the most recent Moody's rating report that Moody's released when they put Genworth on credit watch for downgrade contemplated this possibility that Genworth, the parent company, which also runs a life-insurance business, which is a healthier business, will spin off -- or as Linn says, jettison -- will spin off this mortgage-insurance unit.

MR. WARREN: Jettison in a good way.

MR. HSU: And I've been told the reason why that was contemplated in the report, is that right before that report was released, Old Republic had announced that they were going to spin off that, or jettison their mortgage-insurance unit. But after the report was announced, the regulators -- the state regulators for the mortgage-insurance units of Old Republic objected to the spin-off. They said, "We won't approve this." So then that has subsequently been taken off the table.

So my belief is that to the degree that the Old Republic jettisoning or spin-off would create a market acceptance of this type of activity, and that's what led Moody's to discuss this in the report, to a degree, that was all caused by Old Republic. I believe this is not going to be a possibility or a potential, going forward.

MR. WARREN: Thank you.

ACTING CHAIR CAREY: Further questions?

(No response)

MR. HSU: And I think I mentioned earlier, the second reason why we need TCLP, is that we need to reduce this TCLP balance to a dollar amount that can be digested by a general private market that has also shrunk.

Thanks, Tony.

So on this issue -- on this need to reduce TCLP, we're very much in sync with U.S. Treasury and the GSEs. And as a result, in order to approve the TCLP extension, the Treasury also wanted to have some visibility, if you will, of how we're going to reduce our TCLP exposure for the next three years.

So in August, the Agency submitted our final projected plan to reduce TCLP. And it's our -- we've been told that it's near complete approval, if you will.

And in this plan, we contain some of the same strategies that we'd been using over the last three years, that at times we had informed the Board about. We monetize the assets -- you know, they kind of generally fall into three different categories. We monetize assets, and with the cash, we use them to redeem bonds. We did bond refundings when we had the opportunity; and we also, as we will tell you later on, that we've been trying to modify our procedures and programs so we can do more loan modifications, so we can get more assistance from the *Keep Your Home* funds.

So they generally fall into those three categories of strategies.

So since we are dwelling, a lot of it, on some of the old strategies and sort of asserting that they will be the same categories of strategies that we would execute going forward, just how successful have these strategies been in the past three years?

Over the last three years, we reduced our variable-rate bond exposure by $1.9 billion, and we reduced our variable rate at the percentage of our variable-rate debt from 61 percent to 48 percent.

And I think that these are very impressive numbers by all stretch of the imagination. And the key here in our plan is to try to repeat that success.

If you go to page 11, roughly speaking, when we started a program, we had about $3.4 billion of VRDOs that were supported by TCLP. And if you compare that $3.4 billion to what we have today, which is $1.8 billion, we reduced it by, roughly, 50 percent. I think it's about 47, 48 percent. And our high-level objective of this plan that was submitted to Treasury, is to repeat that same 50 percent reduction over the next three years.

But along the way, you will see that balance right now is $1.8 billion. And along the way, at the end of 2013, there is a $1.5 billion balance target and $1.2 billion balance target.

And the reason why these two balances, in particular, are important, is that Treasury very much wanted the extension to have some self-governing process, meaning, that they wanted -- they want you to be incentivized, if you will, of trying to reach these targets without them watching over your shoulder actively.

So they wanted this idea of having these 2013 and 2014 target balances so that you would attempt to hit them.

So if the actual balances are higher than the target balances, then we would have to go through a process that I've likened to going to the therapist to figure out why you didn't hit those balances. And if you were determined to be sound and healthy but just chose not to do certain things, they would assess a 50 basis-point penalty on the difference -- only the difference between the actual balance and the target balance. But if they were to determine that somebody's strategies were, indeed, infeasible, then they wouldn't assess the penalty.

But to me, the most important of all is that if you hit these target balances, they will not ask a single question. The goal is for us to hit these balances. And how we hit them, if we come up with a strategy that we haven't thought of in the past and we use it, and we get to these balances sooner rather than later, then we could cancel these therapy sessions, if you will.

At some level, I tried to encourage folks not to focus too much on just exactly what the strategies are because there are many. I mean, if we look back on how we accomplish that 50 percent reduction over the last three years, it wasn't because we had a slugger on our team to hit it out of the ballpark every game, every time he comes up to bat. It was because we eke it out with the bunts and we hit singles all the time to earn -- to eke out runs here and there.

MS. CAPPIO: Small ball.

MR. HSU: Okay, I'm not a strong sports fan, so I get very nervous when I use sports analogies. But being an American, you have to use a sports analogy, right?

So instead of focusing on each of these singles, what I like to emphasize is that we can hit these targets in different ways. We don't have to win the game in any way; we just have to win.

But still, there is a lot of requests on what are these strategies.

So this slide here is an attempt to summarize what some of these strategies are at a high level. And earlier, I emphasized that, in general, there are three categories of active strategies, what I refer to as active strategies: The monetizing the assets, and the monetization, the bond refundings, and also talking about eking out a bunt or a single, doing loan modifications so we can get a hundred thousand dollars from *Keep Your Home California*.

These are the three active strategies.

And you can see that, for example, in 2012 -- I mean, 2013, we're hoping to monetize $90 million. We're hoping to do $60 million of refundings. And I think that number is a bit small, but we're hoping to get about $10 million from the *Keep Your Home California* funds.

So this is generally in sort of one chart, a quick snapshot of the summary of all the strategies there in the plan.

And then there is one strategy here which I refer to as a passive strategy, which is all on the bottom here. These are the results of amortizations or prepayments. Or for better or worse, in the single-family world, if there is a foreclosure, we get the net proceeds after claims.

These are passive strategies, in the sense that we're not -- although we do have a very strong Loss Mitigation Unit that's constantly in the process of selling REOs, but these are not being actively pursued in the same sense as those top three categories.

But as you can see, generally speaking, these passive strategies also have a fairly powerful impact in terms of taking down TCLP and variable-rate bonds.

MR. GUNNING: Mr. Chairman?

ACTING CHAIR CAREY: Yes?

MR. GUNNING: Tim, can you talk a little bit, how do you get money from *Keep Your Home California*? Did you say $10 million?

MR. HSU: Yes. So what Tony is going to talk about later, is that we have modified our procedures and also our program, so that when we do a loan modification, what we're hoping is that we get some of the principal-reduction programs from *Keep Your Home California* to help us with the write-down.

And what those write-downs will look like from the standpoint of getting rid of these variable-rate bonds, is that it will just look more or less like an early payoff, like a curtailment. So then we will get some of that money and then use it to redeem VRDOs, or variability bonds.

Continuing with the sports analogy, we are really close -- we are --

MR. GUNNING: You can't mix your sports. You've got to stay in one sport: Football or baseball.

MR. HSU: I have long been this intermediary. I don't actually watch the sports themselves, I just watch ESPN. And as you know, ESPN is sports-agnostic. You know, they go all over the place -- except soccer. Except soccer.

Anyway, we are so close that yesterday, when we had a call with the Treasury folks, I joked with them about what I should be using in terms of verb tenses. Has the plan been approved and we're just waiting to hear, or is it going to be approved? And they led me to believe that it's just a matter of days before they approve it.

And the reason for that is that we're starting to already get documents for completing the extension, which are dated next Friday.

So the plan needs to be approved before we execute a document. And we believe that it's going to be a Hail Mary. We're close. Very close.

MR. GUNNING: A walk-off home run.

MR. HSU: Walk-off home run.

I don't want to offend anybody's sports here.

So getting back to the reason why we are here, the resolution. On page 15, the resolution gives the Agency an explicit and specific authority to extend TCLP. And the long and short of it is that one could actually argue that we already have existing authority to make amendments to existing documents. But the GSEs, along with their counsel, thought that it would be a good idea -- and not just a good idea -- they want us to get an explicit and specific authority from the Board to do everything that's necessary, and sign -- execute all the documents that's necessary to extend TCLP. And that's why we have this resolution.

I close my remarks.

ACTING CHAIR CAREY: Thank you.

Other questions regarding this?

MR. WARREN: Mr. Chairman?

Tim, your monetization comment, is that basically the sale of assets or the sale of loan assets? Can you describe the components of monetization as far as reduction, as part of your plan?

MR. HSU: Some of that is securitization of single-family FHA loans and selling the MBS's. Some of it is tying this to the earlier presentation that Jim gave. When we do a portfolio preservation, the old loans, when they pay off, we could also use those loan proceeds to redeem variable-rate bonds, or wherever they come from. So there is also a small component in here, which comes from our assertion that we could continue to do portfolio preservations. And when we do do that, it will cause some early payoff of the old loans, and we could use them to call our bonds.

ACTING CHAIR CAREY: Yes.

MS. CARROLL: Tim, this is a great explanation, and I understand perfectly why we need to move forward with the extension.

But just out of curiosity, are they increasing the cost of the program for the extension?

MR. HSU: Not by the whole lot. There are certain features that are being tweaked a little bit.

But on balance, the facility is still -- for us, it's not a facility that we can get in the marketplace.

MS. CARROLL: Right.

MR. HSU: Specifically.

But in general, the one feature that is really, how should I say, really fantastic is that if these VRDOs were ever to become bank bonds, generally speaking, there is a very accelerated repayment of the bank bonds to the bank. And we'll continue to have no requirements in terms of acceleration, but there is a balloon payment on 2022, which is -- again, that is a feature that's really not been offered in the private marketplace.

MS. CARROLL: Thank you.

ACTING CHAIR CAREY: Other questions?

(No response)

ACTING CHAIR CAREY: Oh, yes, we are going to provide the opportunity for anyone in the public who would like to comment on this matter before the Board takes action.

If there's anybody, come forward.

(No response)

ACTING CHAIR CAREY: Seeing none, we do have a proposed resolution.

MR. HSU: Mr. Chairman, I would just like to emphasize that this resolution is only with respect to the single-family indenture, the orange box; and then the next resolution applies to the multifamily at HPB.

ACTING CHAIR CAREY: We're looking forward to the subsequent presentation.

MR. GUNNING: I'll move the resolution.

MR. HSU: The good thing is that there is none, because it's the same story.

ACTING CHAIR CAREY: We have a motion.

MS. CARROLL: Second.

ACTING CHAIR CAREY: And a second.

Roll call, please.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Ms. Boatman-Patterson?

MS. BOATMAN-PATTERSON: Aye.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Yes.

MS. OJIMA: Resolution 12-10 has been approved.

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Item 8. Discussion, recommendation, and possible action regarding the adoption of a resolution authorizing a Temporary Credit and Liquidity Program (TCLP) Extension for the multifamily programs under Housing Program Bonds and Multifamily Housing Revenue Bonds III

ACTING CHAIR CAREY: Okay. And can you say anything about the next one, Tim?

MR. HSU: The next resolution simply applies to the Multifamily III indenture, and also the Housing Program Bond indenture. It's the identical story with respect to those indentures. But traditionally, we do single-family resolutions and multifamily family resolutions separately.

So the next one is simply extending TCLP for two different pots of money, if you will.

ACTING CHAIR CAREY: Any questions related to that resolution?

(No response)

ACTING CHAIR CAREY: Once again, this is an item that's before the Board.

If there's anyone who would like to address the Board on this matter, please indicate.

(No response)

ACTING CHAIR CAREY: Seeing none, we do have a proposed resolution.

MR. WARREN: Move approval.

MS. CARROLL: Second.

ACTING CHAIR CAREY: A motion and a second.

Roll call.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Mr. Warren?

MR. WARREN: Aye.

MS. OJIMA: Ms. Boatman-Patterson?

MS. BOATMAN-PATTERSON: Aye.

MS. OJIMA: Mr. Carey?

ACTING CHAIR CAREY: Yes.

MS. OJIMA: Resolution 12-11 has been approved.

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Item 9. Overview and Discussion on Agency's Implementation of Updated CalHFA Loan Modification Program and Home Affordable Modification Program

ACTING CHAIR CAREY: Okay, we'll move on to overview and discussion of the implementation of the Loan Mod and HAMP program.

MR. HSU: To Mike's question earlier about how we get money from *Keep Your Home* that can help the Agency, one of the things that we've been working on, that Tony has been working on with our servicing unit and also with our Loss Mitigation Unit, is modifying our Loan Modification Program, so that we can be more up to speed in terms of industry practices, and also modifying our program so that we can more successfully get more money from *Keep Your Home*.

Tony works in our Financing unit. I'd like to think that at some point, Bruce Gilbertson, my predecessor, thought I was an invaluable assistant. And Tony is my invaluable assistant on many fronts. And he worked on this really hard, and he takes all the credit. But if something goes wrong, I think I will go down with him.

But having said that, Tony is going to walk you through some of the changes we've made. And he's great.

MR. SERTICH: Well, I think the number-one thing I do for Tim is help him with his PowerPoint slides, too. So that's very important.

Yes, as Tim said, we haven't really been taking the lead on this Loan Modification Program. It's really been the Loan Servicing unit and our single-family Loss Mitigation Unit. But it's been an agency-wide endeavor to help streamline our loan-modification process. And to -- really, the main purpose was to modify our program so that it meets the new *Keep Your Home California* requirements, to get that $100,000-per-loan match, to help us reduce our TCLP balances.

The other main goal, obviously, is to help keep as many borrowers in the home. In the long-term -- for the long-term financial viability of the Agency, it makes sense if we have loans out there that continue paying.

And we've taken sort of a two-pronged approach to increasing our loan modifications.

The first line was to update the CalHFA Loan Modification Program. Like I said, the main goal was to conform with *Keep Your Home California* requirements.

The two main requirements *Keep Your Home California* has that we needed to meet was: We have to get all of our loan modifications down to a 140 loan-to-value ratio. And the second was to make sure all loan payments were at 38 percent debt-to-income ratio. That's for housing debt only. It does not include other credit-card debt or anything like that.

So in order to do that, the first step we're proposing is to allow principal forgiveness above and beyond the *Keep Your Home California* principal-forgiveness program. And that would come out of the Single-Family Bond indenture.

The other thing we're doing is we're moving rate reduction prior to long-term extensions on the order of modification.

And the final step would be to allow principal forbearance if the rate reduction and long-term extension do not get the borrower to a 38 percent debt-to-income ratio.

A couple other small modifications we've made is that any interest-only loans out there that we're modifying will be converted to fully amortizing loans after modification. So there's no more -- we won't modify an interest-only loan to remain an interest-only loan. We'll make them start paying principal as well on those loans.

And finally, all of the loans that are modified will be run through a net present-value calculator that was developed internally to ensure that there is an expected positive economic value to our bondholders, so that we're not harming our bond indenture or bondholders in any way through these modifications.

The other angle we're taking is, we are planning on allowing HAMP-approved servicers to allow HAMP loan modifications.

HAMP is a federal program, a loan-modification program. The full term is the "Home Affordable Modification Program," that is pretty much the industry standard for loan modifications.

Many of our servicers participate in the HAMP program, and did not want to run two loan-modification programs, so they weren't running the CalHFA Loan Modification Program, so we decided to let them do the HAMP modifications, and so we'll run two parallel modification programs with Agency loans.

CalHFA servicing is not a HAMP-approved servicer, so they will be running only the CalHFA modification program.

The federal government provides incentives to both the borrower, the servicer, and the investor for completing HAMP modifications, and for completing modifications that stick over time.

Finally -- I don't want to take up as much time as my boss did on this, so I'll be real quick and there will be plenty of time for questions. But the Agency is working with Genworth to update our preclaim advance agreement. In general, what that means is, Genworth has, with our current modification program, paid part of the difference, part of the lost interest to the indenture, as what they call a "preclaim advance," it offsets any future claims that may be made on that loan. But it really helps make the indenture whole for any losses that it receives as part of the loan modification.

Also a big work is making sure the outside servicers buy into either the HAMP modifications on CalHFA loans or use the CalHFA Loan Modification Program, so that we can maximize the *Keep Your Home California* principal-reduction program contributions, as well as encouraging borrowers to keep -- keeping borrowers into their home and keeping them paying into the indenture.

And finally, an ongoing task that we will take is monitoring the effectiveness of the modification programs, as well as making sure that the loan-modification payments are sustainable over time for the borrowers.

So those are the goals of the program.

And I will open it up for any questions.

ACTING CHAIR CAREY: Questions?

MR. WARREN: Tony or Tim, just a question on short sales.

I know there's been a large movement toward that, not away from modifications, but encouraging more short sales by banks.

What is the Agency's kind of philosophy and position on soldering that aspect of loss-mitigation procedures?

MS. HSU: Tony, do you want to…

MR. SERTICH: Go ahead.

MR. HSU: I think that, generally speaking, I think our recent experience is that we are denying -- we're denying fewer short sales over the last six to nine months than we did in the prior six to nine months.

As I understand it, our policy now, too, has -- we recently conformed all the hardship requirements across all of the programs, so that there's no strange situations where we accept hardship under one program but not another program.

I think the short answer to that is, we're doing more short sales than -- we're approving more short sales than we did once. But I have to admit that recently, when I looked at some stats, the sheer number, the absolute number of short sales that we're actually doing, is actually on the decline. There's just not as many requests as we once had.

MR. WARREN: Okay.

ACTING CHAIR CAREY: Okay, thank you very much.

With that, we're going to take a ten-minute recess. And back at 11:10.

(Recess taken from 11:00 a.m. to 11:17 a.m.)

(Ms. Boatman-Patterson and Ms. Chavis were absent from the meeting room.)

ACTING CHAIR CAREY: We are back.

MR. SHINE: I don't think we have a quorum anymore.

ACTING CHAIR CAREY: We will in a moment.

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Item 10. Overview and Discussion of CalHFA Mortgage Credit Certificate (MCC) Program

ACTING CHAIR CAREY: And ready to deal with the overview of MCC program.

Mr. Giebel?

MR. GIEBEL: Yes. Chairman Carey and Board Members, thanks for the opportunity to give you an update on our MCC program. And this is on behalf of the single-family lending unit, who is managing this program.

The Board Resolution 11-09 approved the development of the Mortgage Credit Certificate, MCC Tax

Credit program.

In the development of the program, we wanted to make sure we could provide all Californians an opportunity to take advantage of this program.

(Ms. Boatman-Patterson returned to the meeting room.)

MR. GIEBEL: What we did do, based on your input, was reach out to every locality, county that has their own program -- there are a number of them -- to see what their exact coverage was, inform them that we were going to start a program, and that it was not our intent to step on their toes or on their program. And we haven't received any calls or anything from any other localities.

Except that I will tell you that Orange County ran out of allocation. In the meantime, we did do some loans with Orange County residents. And there is one other thing, a lot of the localities have a limited number of lenders that they deal with on their MCC program.

And I will update you on the number of lenders we have that are approved to do the program across the state.

(Ms. Chavis returned to the meeting room.)

MR. GIEBEL: So the MCC program was launched on May 6th; and at the end of June, we received our first certificate, which means that CDLAC approved our allocation. We had to get our first certificate before we could move forward.

And we actually now have -- we have 21 MCCs that have actually been issued, okay. We have 31 CalHFA lenders who are approved to do MCCs, where we are getting additional CalHFA lenders every week. Claudia signs the approvals.

You can also just apply to be an MCC-only lender. We have one of those. And we also have one in the hopper that's about to be approved.

As of last Friday, we have 85 applications in process. As of yesterday, we had 90, and we have 21 actually have been issued, as I said. Our top four lenders are Guild, imortgage, Primary Residential, and Pinnacle. And Guild is, by far, our largest MCC lender.

We have done loans in 17 different counties -- or we have applications from 17 different counties.

Moving forward, we have had three localities who have asked us if we would take their allocation and be the issuer of their mortgage credit certificate. And we are working with Sonoma to see if we can make that happen with them, and what needs to be signed.

I can also tell you, Orange County, and I think there is one county on the verge of running out of allocation. And we are talking to them.

A lot of counties -- and we have heard this in another area, like downpayment assistance, do not have the personnel, nor the expertise to do these types of programs. So they're looking to us.

Also, we had a meeting last week, last Thursday, with CDLAC, who is expanding the MCC program. There are two other pools that they have available.

One is called the Home Improvement Program. And that is primarily for energy-efficient loans. You can go up to 25 percent credit. I think CDLAC is talking about -- we haven't seen, obviously, the requirements. It was just in an initial meeting -- of 15 percent tax credit.

There is another pool for qualified rehabilitation loans that's considerably more involved. And there really isn't a limit on that right now.

Obviously, these are not first-time home-buyer programs, that is the initial pool for the MCC tax credit.

So that's where we are.

We are going to be working with CDLAC. There were a number of people at the meeting who kind of looked to us and said, "Well, if CalHFA did it, they could be the issuer of the mortgage credit certificate, and we don't have to worry about that." But we are not in the position to actually do the loans.

So that's the update. We really haven't aggressively marketed this because we didn't want to step on the toes of the counties. But as the counties see that we are very efficient at doing this, and we are doing it at a reduced cost.

Okay, so I think we'll be talking to localities and the counties a bit more. So that's where we are as of today.

Any questions?

ACTING CHAIR CAREY: Questions?

So you think that sensitivity about the county issuers will evaporate over time?

MR. GIEBEL: We think so. And especially when we hear from Sonoma, saying, "Can you do this for us?"

ACTING CHAIR CAREY: That's great.

MR. GIEBEL: All right, thank you.

ACTING CHAIR CAREY: Oh, we have a question.

MR. GIEBEL: Yes?

MS. BOATMAN-PATTERSON: Was Sonoma doing it themselves --

MR. GIEBEL: Yes.

MS. BOATMAN-PATTERSON: -- and they decided not to?

MR. GIEBEL: Yes.

MS. BOATMAN-PATTERSON: Was it the actual county or was it their redevelopment agency? Or who was doing it?

MR. GIEBEL: It was -- well, I don't know who it was in the past, but it is the county now because if it was the redevelopment agency, they can't do it anymore.

MS. BOATMAN-PATTERSON: Well, that's why I'm curious.

MR. GIEBEL: Right.

MS. BOATMAN-PATTERSON: Was there something that caused Sonoma County to step up and say they weren't going to do it?

MR. GIEBEL: No, we didn't know. They just called us last week, and we're talking to them.

I'm not exactly sure, maybe it was the redevelopment. But needless to say, we're just hearing from some other counties and some mayors, saying "We have this downpayment assistance money, and we no longer have people to do it." I think that's the driving force here.

MS. BOATMAN-PATTERSON: That they no longer have people to do it?

Well, it's just curious, because I know that

Sonoma County recently -- the successor housing agency, as part of their redevelopment agency -- there's some issues and some pushback, and whether -- who is going to be doing that. So I'm wondering if there were things like that going on statewide.

MR. GIEBEL: Right.

MS. BOATMAN-PATTERSON: Because the redevelopment agencies did administer a lot of this first-time home buyer programs. And with the elimination, I wonder if there was some shifting going on.

ACTING CHAIR CAREY: That's it. All right, thank you.

MR. GIEBEL: Thanks.

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Item 11. Update on *Keep Your Home California* Program

ACTING CHAIR CAREY: Next, we'll have an update on *Keep Your Home California*.

Di Richardson. Welcome.

MS. RICHARDSON: Thank you.

And I don't have a PowerPoint for you. Sorry. I had to choose between sleeping or doing a PowerPoint for you, and you lost. Sorry.

There is a report in the binder. I'm going to give you some additional updates. There have been a lot of things going on with the program. Some of them, Tony alluded to a little bit in his presentation about the changes that are being made for the CalHFA Loan Modification Program.

And I really have to say, since I have no concept of time anymore, I don't know what I've told you and what I haven't. So if I am repeating myself, just stop me.

We did recently have some more changes to the program approved by Treasury. Most significantly in the reinstatement program, the loan-reinstatement program, that amount is now up to $25,000 per homeowner.

Our overall household income limit has increased to a hundred thousand dollars. We eliminated the match requirement on the Principal-Reduction Program. And we can also do what is known as a "recast" as opposed to a "modification."

So what that means is, a homeowner can call us, we will take all of their information, we'll completely underwrite the loan. And if we can, with our $100,000 alone, can get that borrower under 140 percent LTV and under a 38 percent DTI, it's a go. We send the record to the lender, they say they'll accept it, we send them the money. There is absolutely no modification needed. It is much quicker. The borrower doesn't get all wrapped up in trying to send things back and forth with their servicer. It's just sort of a win-win for everyone.

So we think that that's going to be a pretty significant improvement to our performance.

The other thing that's very significant in that regard is last week, the GSEs -- Fannie and Freddie -- did issue new guidance explicitly telling their servicers they could participate in this program, and that they should participate in the program. We've been working a long time with them, and I think I lost several bets with people because I knew they were going to come on board, but I just didn't think it would take quite this long. But they are on board now, and very aggressively.

I spent the beginning of this week at Washington, D.C., at a fly-in sponsored by Treasury with the GSEs, and all of the other Hardest-Hit Fund states. And the GSEs and Treasury are not only supportive of the new California model, but they're encouraging other states to adopt it as well.

You know, we've talked about before there being a problem with capacity for servicers. There are only so many programs that they can sign onto. And so this one sort of has the blessing.

Since we've made these changes, we have got about 90 servicers that are currently participating in the *Keep Your Home* program all together; and we're up to 38 that are participating in the Principal-Reduction Program. That's a significant increase since the last time we talked about this.

That does include Bank of America. As you know, they've always participated. And we do have verbal commitments from -- well, GMAC has signed on. We have verbal commitments from Wells, Chase, and Citi. So they're all going to be on board soon, and I think that that will also make a very large difference in our numbers and what's going on with our program.

We did start a -- sort of a soft -- we call it a "soft pilot," or "beta," if you will. We started that in early September, mostly with GMAC and CalHFA because these are being processed manually.

I think that you know we have a CDF process, an electronic-record exchange program that we use with all of our servicers. There's a national committee to keep all the states on the same line there.

And the formal CDF process for this program will be available October 22nd. And some of the other banks are timing their official participation to begin when that CDF process is actually live and going.

But we are seeing some uptick. We're seeing the manual process has been very helpful. It's always helpful to start out a little bit smaller because you can see what isn't working that you thought would, and it gives you time to make the necessary adjustments before, you know, you're sort of blown out of the water.

Let me think of what else I think is important to tell you.

When we increased the amount of the benefit from 50 to 100, as far as borrowers that had already gotten principal reduction and they had gotten 50, if they have a new qualifying hardship, they can qualify for the other 50. If they don't have a new hardship, they can't just get an additional 50 because we believe we have already solved their affordability problem. But if they've got another hardship -- and, unfortunately, there are a lot of families that are knocked down again, you know, we want them to come back in and try again.

We have seen a significant uptick in our numbers and in our ability. You know, the quarter that was, like, from April to June was a really big quarter for us, mostly because of that EDD mailer. That was very successful. That went out to over a million recipients. We're going to go back to them and see if we can't get them to do another one soon. But that provided a significant lift.

So from the first quarter to the second quarter of the year, we had a 66 percent increase in our fundings, and then the last quarter, we saw a 34 percent increase. So we're definitely seeing things trend up and our numbers going up.

One of the things that was really fun for me to hear over and over at the Treasury meeting, were all the other states talking about how they were struggling to do 400 transactions a month.

And, you know, I'm begging our team to give me 3,000 a month. I mean, 400 they could do in their sleep. So we definitely have a much bigger lift here in California. But I think that the team has stepped up, and they're really doing yeomen's work.

Bank of America continues to be the top servicer, participant in the program. They generally do between 25 and 28 percent of our volume. And we are seeing that they are continuing to perform really well. Bank of America is first, followed by Wells Fargo, Chase, GMAC, Citibank, and CalHFA, working with Tim and Tony to try to get that CalHFA number pushed up there a little bit.

The counties -- the top ten counties that have had the number of unique homeowners assisted:
Los Angeles is the top, 19 percent of our homeowners have been in Los Angeles; followed by Riverside,

San Bernardino, San Diego, Sacramento, Orange, Contra Costa, Alameda, San Joaquin, and Fresno.

One of the other tidbits of information that I wanted to share with you, and then I'll just let you ask me whatever you want, is we're constantly looking at the reasons we're telling people no, or why they're falling out or what the -- why they're being disqualified, and taking a look at if we need to go back and make changes, and if those still make sense.

So in taking a look at the applicants that we've had after they've received their homeowner action plan -- which means they've come in through triage, they've passed counseling, and they were given a plan, saying, you know, "It looks like you're probably eligible and this is what you have to provide us so that we can actually take a look at and verify the information you've given us," the number-one reason that people are falling out and not pulling through, 41 percent is because they're not providing their documentation. They're just not following up and providing all of their documentation.

So that's something that we've spent some time in the last couple of months developing some protocols and some e-mail-type reminders to people, letting them know, you know, "It's been five days. We haven't heard from you. You really need to get your documents in. Give us a call if you're having a problem. If you've got a question about something, and" --

Am I talking too fast for your fingers?

THE REPORTER: No, you're fine.

MS. RICHARDSON: I know I tend to go quickly. Sorry.

Thirteen percent are due to homeowners that have just withdrawn their application. It's really sort of interesting to us how we'll get somebody all the way through to the end and tell them that they're approved, and then they'll say, "No, this feels too much like welfare," or "I'm not comfortable. I don't want to do it," or "I don't want to sign the lien document." So over 13 percent of them are withdrawing actively.

Ten percent of them have fallen out because they didn't have an affordable payment, meaning, that, you know, we didn't think it was sustainable, even with the amount of assistance that we were providing. We are hoping that, you know, if we moved our number to 140 percent LTV, a 38 percent DTI, we're hoping we're going to pick up a bigger group of those people. And we're actually seeing a lot of the banks that are adding additional funds on top of our hundred thousand dollars to get them under that threshold.

Six percent of them fall out. And the biggest percentage of that, 11 percent of that 6 percent is in the PRP program because their payment is already affordable. It's already under 31 percent; and if their payment is affordable, we just don't think they really need the help.

So those are some of the top-line things.

I can give you more, if you want it. But I'm happy to answer any questions.

ACTING CHAIR CAREY: Jonathan?

MR. HUNTER: What is the one county that's left out?

MS. RICHARDSON: Alpine. Alpine.

Yes, and we figure, we can solve it all in Alpine, if they'd just give us a call.

MS. CAPPIO: Di, what's the total amount committed to date, or is close?

MS. RICHARDSON: Sure. Well, we currently have funds allocated for over 24,000 homeowners, $541 million. I think that we may see that number come down a little bit.

One of the things we talked about recently is, when a homeowner goes through and if we find them ineligible, we hold their reservation for 45 days, to give them a chance to say, "You've got this wrong. Can you take another look at it?" And the ones that are going to do that usually call us right away, and so we set their money aside. But a big portion of those are in that 30- to 45-day bucket. And we've never heard from them. So we're probably only going to start holding those reserves for 30 days, because we are planning to see that money move out a little quicker.

MR. GUNNING: I'm sorry, so 24,000 homeowners, $541 million?

MS. RICHARDSON: Correct.

MR. GUNNING: That's of the 1.9 million?

MS. RICHARDSON: Correct.

MR. GUNNING: Good job.

MS. RICHARDSON: I can -- Treasury provided us some slides the other day. And I don't have an electronic copy of them yet.

But I will show you, this indicates the funds drawn to date. These are all the states, and here's California *(pointing)*.

And here are the unique applicants. Here's California.

So borrowers funded, here we are *(pointing)*. So I think we're on the right track.

ACTING CHAIR CAREY: Where do you see it going over the next year?

MS. RICHARDSON: You know, I'll tell you, this last year's been really interesting. You know, we were seeing for a long time that only the UMA program -- that was our big, big program. Obviously, if we could get more of those EDD mailers, that will continue to be really successful. But we're starting to see now that more of the lenders are signing on for the -- not just the reinstatement, but doing the reinstatement with a modification and the Principal-Reduction Program. We're seeing that the numbers of borrowers qualifying for the reinstatement program are sort of equaling the number that are qualifying for the unemployment. It's been about, you know, 35/35 percent. And I just can't help but think that the Principal-Reduction is going to take off, especially the recast model, especially with the GSEs participating. I just -- I think that that's going to be the ticket.

ACTING CHAIR CAREY: Our focus has all been about getting the money out, getting the systems in place. At some point, given the initial reason for the Hardest-Hit Funds, it will be great for people to start talking about impact out there.

MS. RICHARDSON: Right.

ACTING CHAIR CAREY: Because when you get down to it, it's…

MS. RICHARDSON: Yes, we -- I'm going to throw a little sports analogy in here. I know my people are going to be shocked. But I think we have really good horses in this race, and we're going to ride them -- ride them to the end. I think they're going to get there.

You know, I'll also tell you a little bit about the three programs under the Local Innovation Fund. I didn't really mention those.

The program by Community Housing Works in San Diego, I met with them a couple of weeks ago, and we're going to be proposing some changes to Treasury for that program, to open it up a little bit. That program, you may recall, was a program to help small community banks that don't participate in the 2MP program, pay off some of their junior liens.

It's been sort of interesting to me. We're seeing a lot of the loans that are coming in under that program in third, fourth, or fifth place, not seconds. So we're going to propose opening that up, so that if a borrower was able to get a HAMP modification on their first and a 2MP on their second, they could then go to CHW to get some relief on their second or on their third, fourth, or fifth, whatever.

So that should open it up a little bit more and provide a little bit more relief. Because I haven't been really seeing the depth of relief to those borrowers that I had hoped to see.

The Sacramento NeighborWorks Program, which is the lease-to-own program, they've been struggling a little bit because lenders are reluctant to sell those homes, knowing that the original tenant is going to stay there. It's not considered an arm's-length transaction. And so we have been talking with them, talking to a couple of the big lenders about participating in that. And I know they're having some conversations with CalHFA about participating within our own portfolio on that. So I think that they're starting to be positioned where we will start to see some transactions under that program.

The LA program, which many of you know and love, I haven't seen anything from them yet. They have asked us if they could amend their program.

You may recall that they originally designed their program so that it was going to only be affected in certain areas of LA where there were NSP dollars. And they are just not finding any traction. So they've asked us if they could open it up to the entire city, and I said, "Absolutely." So I think that we'll be making that change; and hopefully, they'll start getting some traction soon there as well, so...

MR. GUNNING: Di, that's One LA?

MS. RICHARDSON: Yes, sir.

MR. GUNNING: And how about our good friend, NACA?

MS. RICHARDSON: Our good friends, NACA?

Well, we did go out with another RFP. We did open up -- we added several more counseling agencies. NACA is one of them, as is NAAC, the National Asian American Coalition. They both are in, and on the program.

NACA is performing well to date. NACA is getting ready to have a couple -- they're going to start their Dream Tour, or whatever it's called, where they rent the Cow Palace.

So we actually just sent a request to have thousands and thousands of brochures printed up for them, for those. So hopefully, you know, that will be just -- I think all this timing is going to come together very well.

I know also Treasury will be back out in December -- in California in December, for their HOPE NOW event. So there are several things going on this fall that should really drive more borrowers in.

ACTING CHAIR CAREY: Great.

Jonathan?

MR. HUNTER: I just would reinforce, it's a huge relief to see these numbers going up so significantly, because I know it's been a real struggle to get it in place. We have a lot of very painful stories here about people desperately needing help. And it's really satisfying to see that it's getting out.

MS. RICHARDSON: Well, thank you.

I will tell you, too, you know, one of the things that we've done, that's been fairly successful, is when we do -- you know, go and do local radio shows or local TV -- you know, morning talk shows, our phones go crazy.

So I'm going to be making the rounds this fall. And if I'm in your area and, you know, you want to join me or you have some contacts, let me know. It's all about getting the word out, it's all about -- people, they hear it, but they hear so -- there's so many ads. And, you know, it's confusing to them. And they have to hear it over and over again.

We actually are in the process, believe it or not -- I know this sounds silly, but we're having a little jingle developed, because we need something that's going to stick with people. And I promise you, I will not be singing it myself.

MR. GUNNING: You promise?

MS. RICHARDSON: I promise. Well, I promise I won't be singing it on the radio.

MR. GUNNING: I just want to add the comment, it speaks loudly to the Agency, the decision to do the modification directly without the banks. I mean, this is why I'm on this board. I think leadership and showing initiative, that's exactly what I think this organization has done.

And kudos to you and the rest of the group for making that decision, one, and having it pay off, two.

MS. RICHARDSON: Thanks.

ACTING CHAIR CAREY: I agree.

Any other comments or questions?

(No response)

ACTING CHAIR CAREY: Okay, thank you, Di.

MS. RICHARDSON: Thank you.

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Item 12. Reports

ACTING CHAIR CAREY: Reports?

MS. CAPPIO: Any questions? Just FYI?

ACTING CHAIR CAREY: Any questions on the REO trends or things like that?

(No response)

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Item 14. Public Testimony

ACTING CHAIR CAREY: Okay, we would like to afford the opportunity at this point in the meeting, if anyone in the public has anything they would like to address to the Board that's not related to the agenda, we'd offer this opportunity, if there's anyone.

(No response)

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Item 15. Adjournment

ACTING CHAIR CAREY: Seeing none, this meeting is adjourned.

(The Board of Directors meeting concluded at 11:46 a.m.)

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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 9th day of October 2012.

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