STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Thursday, May 9, 2013
10:00 a.m.

Minutes approved by the Board of Directors at its meeting held:
September 12, 2013

Attest: [signature]

Reported by: DANIEL P. FELDHAUS
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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

GRANT BOYKEN
for Bill Lockyer
State Treasurer
State of California

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

JANET FALK
formerly Vice President, Real Estate Development
Mercy Housing

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

MATTHEW JACOBS
Co-Managing Partner
Bulldog Partners, LLC

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing and Redevelopment Agency

LAURA WHITTALL-SCHERFEE
for Randall Deems, Acting Director
Department of Housing and Community Development
State of California

A P P E A R A N C E S

Board of Directors Present
continued

RUBEN A. SMITH
Partner
AlvaradoSmith

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Participating CalHFA Staff

SHERYL ANGST
Secondary Marketing Specialist
Marketing Division

KENNETH H. GIEBEL
Director
Marketing Division

TIM HSU
Director
Financing Division

VICTOR J. JAMES II
General Counsel
Legal Division

LIANE MORGAN
Chief Information Officer

JOJO OJIMA
Office of the General Counsel
Legal Division

RICK OKIKAWA
Interim Programs Administrator

JACKIE RILEY
Acting Director
Administration Division

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BE IT REMEMBERED that on Thursday, May 9, 2013, commencing at the hour of 10:07 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:

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CHAIR CAREY: I would like to welcome everyone to the May 9th meeting of the California Housing Finance Agency Board of Directors.

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Item 1. Roll Call.

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

JoJo?

MS. OJIMA: Thank you.

Ms. Falk?

MS. FALK: Here.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Here.

MS. OJIMA: Mr. Hunter?

(No response)

MS. OJIMA: Mr. Jacobs?

MR. JACOBS: Here.

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

MS. CHAVIS: Here.

MS. OJIMA: Mr. Boyken for Mr. Lockyer?

MR. BOYKEN: Here.

MS. OJIMA: Ms. Patterson?

MS. PATTERSON: Here.

MS. OJIMA: Mr. Shine?

(No response)

MS. OJIMA: Mr. Smith?

MR. SMITH: Here.

MS. OJIMA: Ms. Whittall-Scherfee for Mr. Deems?

MS. WHITTALL-SCHERFEE: Here.

MS. OJIMA: Mr. Alex?

(No response)

MS. OJIMA: Ms. Matosantos?

(No response)

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Here.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

CHAIR CAREY: Thank you.

--oOo--

Item 2. Approval of the Minutes of the November 13, 2012, and March 7, 2013, Board of Directors Meetings

CHAIR CAREY: The next item of business is approval of the minutes of November 13th, 2012, and March 7th, 2013.

MR. BOYKEN: I'll move the minutes.

CHAIR CAREY: A motion.

MS. FALK: Second.

CHAIR CAREY: And a second.

Roll call?

MS. OJIMA: Is that Ms. Falk?

CHAIR CAREY: Yes.

MS. OJIMA: Thank you.

Ms. Falk?

MS. FALK: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Jacobs?

MR. JACOBS: Aye.
MS. OJIMA: Ms. Chavis?
MS. CHAVIS: Aye.
MS. OJIMA: Mr. Boyken?
MR. BOYKEN: Yes.
MS. OJIMA: Ms. Patterson?
MS. PATTERSON: Yes.
MS. OJIMA: Mr. Smith?
MR. SMITH: Yes.
MS. OJIMA: Ms. Whittall-Scherfee?
MR. WHITTALL-SCHERFEE: Yes.
MS. OJIMA: Mr. Carey?
CHAIR CAREY: Yes.
MS. OJIMA: The minutes have been approved.
CHAIR CAREY: And for November 13th, finally.
MS. OJIMA: Finally.
Thank you, everyone.

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Item 3. Chairman/Executive Director Comments

CHAIR CAREY: The next item of business, I'll simply turn to our Executive Director, Ms. Cappio.
MS. CAPPIO: Good morning.

Today, I'd like to report out on two items of interest to the Board. One is the cost study on affordable housing that we've been involved with our sister agencies the last year or so. CDLAC, TCAC, HCD, and CalHFA are in a joint study to comprehensively look at the key cost factors of producing affordable housing in California.

We are making good progress. Obviously, a little bit more delayed than I may have reported out the last time I talked about this. But we are looking at a draft cost study out sometime this summer. I'll forward it to the Board. Basically, we're comparing costs -- we're looking at key indicators of cost, as well as comparing the differences between a unit produced with subsidy versus a private-market rate unit.

And I'm surprised at this, but we are getting some headway that we're having trouble with obtaining adequate private-market data. But we are digging deeper into our contacts, and we will be hopefully gaining enough data to make it statistically significant.

Secondly, we have been involved with HCD in a Chronic Homelessness Policy Academy sponsored by

SAMHSA -- which stands for Substance Abuse and Mental Health Services Agency -- money. They're part of the Federal Health and Human Services Department.

We've been getting great participation, and recently completed a day and a half workshop with our federal partners and our state partners in this.

We have focused on building a framework that is different in providing services to that very hard group to effectively intervene with. And I hope that during the next couple of months, we are in this process for about the next three or four months; that in September, we'll be able to report out to you specific actions to make the state a more effective intervener in serving that very difficult group.

When you look at homelessness, you have people who are homeless temporarily, and then you have a harder group, that is very expensive to actually effectively serve but very important to look at more effective ways to do that.

So we have great participation from the Department of Corrections, our own Health and Human Services Department, HCD, CalHFA, and the vets. So we have been getting really good traction on the ground, and hope to continue that.

Thanks.

CHAIR CAREY: Great.

Any questions or comments?

(No response)

--oOo--

Item 4. Report of the Chair of the Audit Committee

CHAIR CAREY: Okay, the next item of business is report from the Audit Committee.

Chairman Ruben Smith?

MR. SMITH: Yes. I'm glad to say that we received the audit for the housing fund, and everything was in order. Unfortunately, the amount of money we're getting there is not great, but we are dealing with that.

And I understand in the next couple years -- we have at least five years before there's any real problem there, as I understand it, given the current projections. And then in the next few years, we'll have some kind of a plan to deal with that.

I don't know, Claudia, if you wanted to

comment on that or not.

MS. CAPPIO: No. Just that we'll have a plan. That's part of our job.

MR. SMITH: Great. And other than that, the Audit Committee did a great -- or the audit was well done, and there were no issues other than the going-concern issue, which is the good news/bad news.

CHAIR CAREY: Any questions or comments from anyone else?

(No response)

CHAIR CAREY: Okay, thank you very much.

--oOo--

Item 5. Report of the Chair of the Compensation Committee

Item 6. Discussion, recommendation, and possible action

adopting a resolution to amend the Compensation

Committee charter by changing the name of the Committee

CHAIR CAREY: The next item of business is report from the Compensation Committee.

Mr. Gunning?

MR. GUNNING: Thank you, Mr. Chairman, Members of the Committee.

The Compensation Committee met last week to finally begin the evaluation of our Executive Director. Before we got to that, though, we realized that there was some significant things we want to do; specifically, change the name of the body. But as we got into it, we recognized that there are some other issues.

So in front of you, you'll see the language, the charter that actually authorizes the committee and its responsibilities. And so what we're hoping is that you'll take a look at this.

And, Mr. Chairman, we'd like to table the decisions of the committee until everyone has had a chance to review this and put it on the agenda for the next board meeting, if that's possible.

Did I miss anything, Victor?

MR. JAMES: No.

MR. GUNNING: Okay.

CHAIR CAREY: Okay.

MR. GUNNING: That's it. Thank you.

CHAIR CAREY: Thank you.

With that, we will move on to discussion, recommendation, and possible action regarding the --

MR. GUNNING: I think I did both of those, Mr. Chairman.

CHAIR CAREY: Yes. Thank you.

MR. GUNNING: I wanted to be efficient.

CHAIR CAREY: Thank you.

You got ahead of me.

MR. GUNNING: I don't want to ever get ahead of the Chairman. Sorry.

CHAIR CAREY: Which is easy, yes, right?

--o0o--

Item 7. Discussion, recommendation, and possible action regarding the adoption of a resolution approving the Agency's Strategic Business Plan for Fiscal Year 2013/2014

CHAIR CAREY: All right, next is the recommendation and action regarding the Strategic Business Plan for the next fiscal year.

MS. CAPPIO: I'm going to change hats here.

CHAIR CAREY: Great.

MS. CAPPIO: So I'm now Claudia Cappio, Executive Director, sitting, presenting before you.

I am pleased to present the Strategic Business Plan for the next year. And this plan, in large part, builds on the foundation of last year, and adds some new action items.

And this plan, along with the proposed budget that you will be reviewing as well this meeting, presents our efforts to move ahead and do the work of this agency in a successful way.

I can note to you that we still face continued fiscal challenges, the need to diversify revenue sources and lending products to respond to a changed context. But that we feel in a much better place -- not only feel, but can demonstrate that we are in a much better place a year later -- and that we have continuing work to do, both in our fiscal side, but also to respond and make real the Governor's Reorganization Plan, and our part in that.

You will note before you, there are seven key strategies, along with specific actions, due dates, and identified team leader and team members.

The most important strategy remains our work toward financial stability and increased liquidity, with the immediate goal of getting out of the VRDO, balanced down by $500 million or below, by the fall of 2015. That's significant because we have an extension of the Temporary Credit and Liquidity arrangement or plan with the U.S. Treasury -- thank you. But we want to be out of it, and so do they. So we're working toward that goal.

Pursuing loss mitigation actions to buttress the single-family loan portfolio is another key strategy. And I will note to you, you may note that some of the objectives have already been accomplished. And I can just say that this is due to the hard work of our loan servicing and our portfolio management folks. And I can certainly say from my experience, how often does that happen? But it's really good when it does. So some of the goals that we outlined in February, we've already accomplished.

A related strategy in this vein, continues to be, making sure that we distribute the money, the

Hardest Hit Fund money through the *Keep Your Home California* Program. That relates and doesn't relate to making ourselves healthier; but where we can connect the dots with our own portfolio, we have done so more aggressively.

On the lending side of the business, which is our main purpose, as the Board discussed during its previous few meetings, we are now in a position to lend again, and under our own capital steam. And you will review that as part of the single-family piece of the meeting today. But as you have agreed last time, we are going to continue the preservation and capitalization strategy with the multiple family side, with a goal of $125 million, including an expanded prepayment program this year.

Part of this strategy also includes work on a few longer-term initiatives, including the multi-year use of the earned surplus account, and how we most effectively use that, given where we are now.

We are also a part of a federal pilot program with HCD again, which is called the Section 811 program, which is a rent-subsidy program geared toward stabilized or permanent supportive housing. And we are well underway with this program. We appreciate the fact that California was chosen for this; and hopefully it will demonstrate the concept.

On the reorganization front, quickly, it's an ongoing process, as you learned last meeting. We continue to research the cost and effectiveness of coordination and consolidation with HCD, with an eye toward making sure that we have as effective a delivery of programs and services for California as we can.

This is intensive work from both a senior management standpoint and from an administration and human-resources standpoint. Again, we are in the midst of this. We will continue to report out on our progress.

Lots of work ahead of us.

I'm very heartened by our outcomes over the past year. And because of a renewed accountability structure, both internal and with the Board -- and most of all, a great staff behind me -- I recommend that you consider this and adopt it for the next year.

And I will be glad to address any specific questions you have.

CHAIR CAREY: Great. Thank you.

Questions? Comments?

(No response)

CHAIR CAREY: I see we're still looking at pieces of this.

MS. FALK: Well, I have one.

CHAIR CAREY: Yes?

MS. FALK: I was just curious, under Number 3, there were several things, and sort of at the latter part of the -- the back end of that, that looked like might have sort of new programs -- new uses of funds if they come in.

And I was just wondering if you have to have specific uses for each -- or separate uses for each program, or are you identifying things that you'd like to do, and then looking for sources to fund those? This is my question for you.

MS. CAPPIO: I think I'm going to get Jim and Rick up here. But my short answer is --

MS. FALK: I don't need it in detail, but I was just --

MS. CAPPIO: Yes, my short answer is that it's both, that we have these resources.

MS. FALK: Okay.

MS. CAPPIO: And part of dealing with a constrained resource environment is looking at what you have and being able to use it differently. So that's what we're doing. And we really want to do it in a multiple-year strategy, so that people coming in for recapitalization preservation, or when we're -- some of these RHCP properties that we're facing challenges with, we can provide a certain path out toward a better place for them.

MS. FALK: Yes, so what I'm getting at is, you have identified what your priority uses would be and then looking for the --

MS. CAPPIO: We are in the midst of that, yes.

MS. FALK: -- and then helping to find the funds to go there?

MS. CAPPIO: That's correct.

MS. FALK: Okay.

CHAIR CAREY: Any other questions?

(No response)

CHAIR CAREY: We do have a resolution, it's 13-06.

MR. GUNNING: Mr. Chairman, I'll move the adoption.

CHAIR CAREY: A motion.

MR. BOYKEN: Second.

CHAIR CAREY: And we have a second.

MS. OJIMA: Mr. Boyken?

CHAIR CAREY: Mr. Boyken, yes.

MS. OJIMA: Thank you.

CHAIR CAREY: Roll call.

MR. JAMES: Comments, Mr. Chair, from the public.

CHAIR CAREY: Thank you very much.

This is an opportunity, if there's anyone from the public who would like to comment on this, please indicate.

(No response)

CHAIR CAREY: Seeing none, roll call.

MS. OJIMA: Thank you.

Ms. Falk?

MS. FALK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Jacobs?

MR. JACOBS: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Mr. Boyken?

MR. BOYKEN: Aye.

MS. OJIMA: Ms. Patterson?

MS. PATTERSON: Aye.

MS. OJIMA: Mr. Smith?

MR. SMITH: Aye.

MS. OJIMA: Ms. Whittall-Scherfee?

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Thank you. Resolution 13-06 has been approved.

CHAIR CAREY: Thank you.

MS. CAPPIO: Thank you.

And I have to say editorially, I sweat a little when it's this easy, but it's okay.

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Item 7. Discussion, Recommendation, and Possible Action

regarding the Adoption of a Resolution Approving the Fiscal Year 2013/2014 CalHFA Operating Budget

CHAIR CAREY: The next item -- perhaps we can change that dynamic --

(Laughter)

CHAIR CASEY: -- the next item of business is review and adoption of the fiscal year 2013-14 operating budget.

MS. CAPPIO: I'm going to let Jackie Riley, the administrative officer, pull the weight on this one.

And I'm available for questions as well.

CHAIR CAREY: Great.

MS. RILEY: Claudia's challenge to all of us was to reduce costs, find efficiencies. So that was my main calling in putting together this budget.

So with that, I'm going to go through, number one, keeping in mind the strategic projects that we put all the funds in here in support of the strategic projects.

We were able to eliminate ten and a half positions because of no longer using -- being reliant on retired annuitants and students, we reduced that cost by a half a million dollars over that, and our overtime cost is going down because we've been able to fill some positions. So we have achieved some cost savings there. And I just wanted to go through the areas that briefly Claudia mentioned in her memo, but I just wanted you to know we're really serious about this. And even though some of them are minor, they're still where we were able to reduce some of our cost.

And that was in the general expense category of $48,000; communications, sixty. And also some of our I.T. expense is going down. It doesn't look like it when you look at the strategic project. But, you know, due by actually $200,000 because we've done our upgrades.

The ECM, our major electronic document management, that's due to be finalized and up and running. So that cost is going away.

As is equipment. We're really well equipped this year, so that's going down by a hundred thousand.

The areas that I need to point out of increase, our consulting services is going up. $200,000 has been added, for a contract for system integrator to help with CalHFA and HCD, sort of like a project manager, to keep things on track and keep all of us moving forward.

A little bit of an increase for fiscal services, general counsel, marketing, and single-family servicing. Nothing major, but just little that has added to that consulting services.

We also have money in there for a strategic project. And that's replatforming from an old language which is probably at least 25 years old. And we need to do that. So that's budgeted at $2 million.

The other piece that has gone up is pro rata. And the pro rata is one of those things that we have been dealing with the Department of Finance, because that cost has gone up $561,000. And that's a result of having the merged budgets, HCD and ours, looking as one, to the system that DOF manages, their CALSTARS system. So their costs have gone up, ours have gone up. We're actually working with them to try and identify how we can lower these costs.

I got a new missive this morning that I passed to Lori, because it really has more to do with accounting. So we have been -- as Claudia said, a lot of us have been working on this issue, so that we can see and be able to budget for our discrete cost and separate them from the HCD cost.

So with that, I would ask approval of the budget.

If you have any questions, we're both here to answer them.

CHAIR CAREY: Questions? Questions?

MS. FALK: I always have questions.

CHAIR CAREY: Good.

MS. FALK: Well, this is a basic one, about how I don't understand this budgeting process. But it seems to me we've only got half of it, which are the expenditures, and where is the other half, which is the revenue, and what's the bottom line?

MS. RILEY: We don't put -- revenue is not shown in here.

I have to say, I worked for the Agency for 25 years and retired, and I'm back again. And we used to include a revenue piece to it. And apparently, in the last intervening years, we have not. So this is just the cost of the operation, what we think our operating budget is going to be. So I can't answer the revenue piece.

MS. CAPPIO: I can try to respond here: That we have been trying to maintain a level of two years of operating expenses in reserve, knowing that our revenues have substantially decreased, but trying to keep an equilibrium. And part of that is holding costs down and providing, roughly -- what are we at, about $45 million?

MS. RILEY: The budget this year is forty-three nine.

MS. CAPPIO: Yes, which is actually proportionately lower. So the mandate for me is still continue to contain and possibly decrease, find efficiencies.

But as Tim went through in January, we're at that point where we are building up liquidity again, building up reserves. We're not there yet; but we have been trying to maintain, and have been pretty solidly two years of operating expenses in reserve.

MS. RILEY: And if you will note, from the budget that was enacted last year of $47 million, it looks like we're projecting spending about forty-two.

And so we're hoping -- please know that going forward this year, that we'll be looking at every -- you know, we're looking at every expenditure and every position we fill: Is it really essential, do you really need it?

MR. HSU: The easiest way, Janet, to answer your question, is at the last board meeting I presented a chart that looks like this *(pointing)*, which is not in front of you today.

But this is a projection of the revenues from unencumbered sources for this coming year, and it does show the revenue side. And the red line that I have presented at that chart on the last board meeting is based on their budget for the coming year.

So what that is showing -- the punch line is, what that's showing is that we do have a surplus, when you measure those remedies against the expenses for this year and the next couple years.

CHAIR CAREY: Questions?

Yes?

MS. PATTERSON: So, Tim, what's the projected revenue for 2013-14 that you have, the dollar amount there?

MR. HSU: This is on the chart so I don't have the exact number.

The projected revenue, it's about $48 million for 2013-14.

And following that, it's a little bit -- it's about the same. And then the year after that, we're a little bit lower.

So if we are on this trajectory of the low forties for the next three years, we should be okay from the revenue-to-expenses basis.

MS. PATTERSON: Do you have the dollar amount that was actually the 2012-13 year? Do you have -- you are giving us projected for 2013-14. But do you know what our actual revenue was that we brought in for 2012-13?

MR. HSU: No, I don't have that in front of me. I can get you that.

MS. PATTERSON: Okay.

MS. CAPPIO: But what I'm hearing is that you would like to review the expenses and the revenues together as you adopt a budget. And that is easy to do. We used to do it. We will be doing that.

MS. FALK: I mean, even it's a --

MS. CAPPIO: Yes.

MS. FALK: I understand that, but it's just like -- it feels like we are only seeing half the picture.

MS. CAPPIO: Yes. Got it.

CHAIR CAREY: Other questions?

MR. JACOBS: The pension expenditures are included in the salary line? Or where?

MS. RILEY: That's under something called that "OPEB."

MR. JACOBS: Okay, got it.

And that's sufficient?

MS. RILEY: And that's showing there.

We did not -- last year, it was included as part of the bottom-line budget, but it's not an expenditure. We don't expense that out.

It may show up on financials as a liability, but it's not something that you're actually drawing down in your budget. So we did not include it this year, because some of those pro rata costs that we're talking about, things that are central admin services in state government, get billed directly off your bottom-line budget number. So we took that out.

CHAIR CAREY: Yes?

MR. BOYKEN: A quick question, or possibly correction.

The OPEB is "other post-employment benefits." So that does not include pensions.

MS. RILEY: Right, it's not pension.

MR. BOYKEN: Oh, okay.

MS. RILEY: Yes, it's the --

MR. BOYKEN: It's the health and --

MS. RILEY: The pension line is showing up in benefits, staff benefits.

MR. BOYKEN: Thank you.

CHAIR CAREY: Other questions?

(No response)

CHAIR CAREY: Speaking of the allocated costs, I mean, it is a little frustrating to see that it's going up a half a million dollars. And that's on top of a $700,000 increase last year, which isn't apparently reduced by the fact that the Agency has spent less in the current year.

MS. RILEY: No -- well --

CHAIR CAREY: And are you saying that, in the aggregate, both HCD and CalHFA will pay more as a result of consolidating?

MS. RILEY: Yes, at least at this moment.

CHAIR CAREY: I know we don't control that, but it certainly seems unreasonable somehow, as we look to reduce costs overall, that that share of costs just seems to grow.

MS. RILEY: Staff have spent a considerable amount of time talking to the Department of Finance about why this is. Because HCD is bearing additional costs too. And they use a CALSTARS program for tracking all of their budgetary. And that has gone up because of the increased numbers.

We don't get that because we don't use CALSTARS. But both programs are seeing additional increases. And that's because in state government, with the CALSTARS system that is pretty old, it tracks things by organization code.

There is a few things that we can discretely see; but other than that, it's tracked there. And some of it, they cannot, when it's tracked by org. code, separate out. So we've been trying to figure out, is there a methodology that we can use to separate our workload from -- you know, and that's transactional stuff that runs through SCO and all these other central -- you know, State treasurer, whatever. And we get billed.

And part of that, I think -- looking at pro rata, there's several things that go into it. And it's no one thing that drives it up. But some of it is the combined, looking at both budgets together is a bigger piece of the State budget. So your costs go up a little bit with that. And it's a little bit workload and several other factors.

And I'm not sure their system is set up

because they don't have the capacity to really break it out in any other way. So we've been dealing a lot with that.

In fact, like I said, I just got some more information this morning.

MS. CAPPIO: So we're continuing to -- I don't say bump against it, but proactively deal with it, and make sure that we are trying to meet our obligations as an agency to the bondholders into making ourselves discrete with regard to tracking and expenses. We fully realize that.

CHAIR CAREY: The other question I'd like to ask is, what's the time frame for the mortgage origination system? Is there a…?

MS. RILEY: Liane is our I.T. person, so I would have to defer to her.

MS. MORGAN: We have not actually put out the request for proposal yet. We anticipate next month. And we anticipate it will be about a year project.

CHAIR CAREY: Great. We certainly need it.

MS. MORGAN: Yes.

CHAIR CAREY: Okay, thanks.

Other questions?

(No response)

CHAIR CAREY: Then this is an opportunity, if anyone in the audience would like to address the Board on this matter, please feel free to indicate.

(No response)

CHAIR CAREY: Seeing none, we do have a resolution before us, 13-07.

MR. BOYKEN: Move approval of Resolution 13-07.

CHAIR CAREY: Thank you.

MR. GUNNING: Second it, Mr. Chairman.

CHAIR CAREY: And a second.

Roll call?

MS. OJIMA: Falk?

MS. FALK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Jacobs?

MR. JACOBS: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Mr. Boyken?

MR. BOYKEN: Aye.

MS. OJIMA: Ms. Patterson?

MS. PATTERSON: I'm going to abstain.

MS. OJIMA: Thank you.

Mr. Smith?

MR. SMITH: Aye.

MS. OJIMA: Ms. Whittall-Scherfee?

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Aye.

MS. OJIMA: Resolution 13-07 has been approved.

CHAIR CAREY: Thank you.

Thank you for the presentation.

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Item 9. Update on Moody's Annual Review of the Agency's Credit Ratings

CHAIR CAREY: Next, Tim Hsu, an update on Moody's.

MR. HSU: Good morning, Mr. Chairman and

Members of the Board.

Since 2008, Bruce Gilbertson, my predecessor, and I have made a lot of presentations to this Board; and the Board has heard a lot about the Agency's restructuring efforts and the various things that we are doing, for example, to get liquidity assistance from the Treasury and to restructure our balance sheet.

It is my greatest aspiration that the Board hears less from me and more from our program folks.

Yes, swaps are sexy, and some may say that they're dangerous. Warren Buffett calls them the financial weapons of mass destruction. And sexy and dangerous makes interesting topics. But the Agency is about putting more Californians in a place they can call home.

The two themes from the last couple of presentations have been, one, that we need to get back into the lending space. We can and, indeed, we must get back into lending.

And, two, is that even with a fairly conservative allocation of our liquidity, we have internal resources to support a warehouse line that can support lending.

Today, I'm here to talk to you about the outcome of Moody's annual update of our credit ratings. And I hope you agree that this particular outcome does affirm these two themes that I've been talking about in the last couple board meetings.

So on March 19th -- this is about a month ago or so -- Moody's released their annual credit rating on the Agency's two credit ratings, and they kept our general obligation at A3, and they kept our special obligation, which is the HMRB indenture that houses our single-family loans at Baa2.

The outlooks are still negative, but this is a huge win for us. And I'll show you why this is in a second.

I have selectively chosen some quotes from their write-up. It is true that there is a little bit of selection bias here. These are all the good things.

Generally, the theme is that things are getting better.

And the one thing that I would emphasize to tie to one of the questions that was brought up at the last board meeting, this is actually the first time I've seen the write-up including a strong relationship with a State.

And I think at the last board meeting, there were a couple Board members, including Matt, who mentioned about the rating agency's possible concerns with respect to the consolidation.

I think that this particular kind of statement addresses that they don't really feel that there are concerns on that front. And, generally speaking, a strong relationship with the state is something that supports the credit of the Agency.

And the reason why I say that this is such a big win for us is that you will see on this chart -- on the left-hand side of this chart is a history of our General Obligation ratings. And you can see that prior to 2009, our General Obligations rating was AA- with S & P and it was Aa3 with Moody's.

And since 2009, for better or worse, in every year, Moody's annual review has resulted in a downgrade. We were downgraded in 2009 to A1, in 2010 to A2, and in 2011 to A3.

And you will see, last year they didn't complete an annual review because their review was suspended by CreditWatch for downgrade for Genworth. So it delayed their review until March of this year.

You can see that this is the first year in which one of their annual reviews actually kept us in the same place and didn't result in a downgrade.

We've reached this state of what I've referred to as an inflection point with S & P last year, when they finished -- S & P -- when they finished the annual review last year, they kept us at the same place as we were the prior year.

So I truly believe that our ratings have reached an inflection point. Whether or not we can bounce back from here to a higher rating is waiting to be seen. But I think we have certainly wrested our descent, if you will.

And this outcome, in my opinion, affirms one of the things that we talked about at the last board meeting, which is at the last board meeting, staff presented a proposed allocation of our liquidity; and the posture that we had was that we assumed that we will maintain our current A- rating, but we would be prepared from a liquidity point of view for -- and downgrade that we do not expect. With this affirmation, I think that this really does affirm our posture as one that is both prudent and viable.

And we talked about it at the last Board meeting, even with this particular conservative posture in terms of liquidity allocation, we can still have about $30 million carved out as a warehouse line to support lending: $27 million for multifamily and $3 million for single-family.

And since I'm a finance guy, there is one slide about swaps. But this slide about swaps says -- this is a slide that I've shown the Board numerous times. This slide says that the collateral posting risk is better contained than it has been in the past.

At the last Board meeting, our collateral posting was closer to about $70 million or so. You can see -- so we were about over here, or so, at the last board meeting, you can see that our collateral has crept with up about $10 million, to about $81 million because rates have descended. But that number is still well within the amount of liquidity we have allocated for this risk, which is $158 million.

And lastly, about two weeks ago, we did close a refunding of a set of NIBP bonds that were issued about two or three years ago. We expect that in the first year we will save about $700,000. And the net present value of the savings, after the cost issuance, we expect it to be between $2 million to $3 million or so, depending on how fast this loan portfolio pays down.

But really, as I mentioned, we can talk about swaps and bonds for as much time as you're willing to listen. But it is really my hope that this coming year the Board can hear more from our program folks, and our financing divisions and our various plans to restructure our balance sheet can more or less recede into the background.

It is true, as Claudia mentioned, that restructuring a balance sheet and attaining financial stability is still the number-one goal of the Agency. But I think, as I said, it's very much my hope that the Board hears less from me and more from our program folks in this coming year; and that the Agency can get back into putting more Californians into a place they can call home.

Thank you.

CHAIR CAREY: Thank you.

Questions or comments?

MS. FALK: Good job.

CHAIR CAREY: Yes, excellent.

And let me just say that if you're successful in your desired outcome that we hear more from program folks, there are a lot of us who know that it's only due to the extremely hard work of the folks who have managed the finances of this agency over the last few years. So we appreciate all the success and the hard work.

MR. HSU: Thank you. I stand on the shoulders of giants, and I have a fantastic staff.

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Item 10. Discussion, Recommendation, and Possible Action

regarding the Adoption of a Resolution Approving the use of the TBA Model for Financing CalHFA Single Family Loan products

Item 11. Update of potential CalHFA Single Family Loan Products

Item 12. Discussion, recommendation, and possible action regarding the adoption of a resolution approving program parameters for CalHFA Single Family Loan Products

CHAIR CAREY: Okay, our next item of business is consideration of use of a TBA model for financing single-family.

And Rick Okikawa and Ken Giebel are up.

MR. OKIKAWA: Good morning. Thank you, Mr. Chairman, Members of the Board.

Be careful what you ask for, when you ask to see more programs people. Here we are, three of us.

To my right is Ken Giebel, who is the head of our single-family lending department. And to his right is Ms. Sheryl Angst, our specialist underwriter.

Today, we'd like to look at items, I think, 10, 11, 12, on your agenda. We put them together because it's all in one package.

Basically, back in May of 2011, there was a board resolution, I think 11-06, which passed, basically stating that any new financing strategies or new loan products must be passed through the Board. And basically that was a direct result of some of our interest-only payment loans, which were very high risk. And rightfully so, the Board in its duties, wanted to eliminate, or at least restrict our risks.

So here we are today. And we've heard the Board. We're looking at our mission in terms of to create and finance progressive housing solutions so more Californians have a place to call home.

Basically, we answer to you, in the sense we are looking at what we've performed before -- I mean, what we presented before in terms of this TBA model, okay. And that TBA model should be looked at as a vehicle for how we get our products out to the public in terms of what specific targets, what specific target populations we're using, okay. That TBA model is something where we feel that the financing presents minimal risk.

If you look at Item 10, there is also a resolution that goes along with that, 13-08, which we will be asking for Board approval of this TBA model at the end of the presentation.

We also are presenting new loan products. And what I mean by "new loan products," Sheryl will be presenting down the road, anything of these new loan products that we're looking at in terms of developing products.

And finally, in spite of Resolution 11-06, Item number 12, we are looking at the Board providing us parameters to make these loans.

And the reason we're looking at the parameters versus the loan products, is because this allows us certain flexibilities, to mix and match the certain loan products that we have in order that we can make loans and reach certain populations.

So if we would, the first slide, we can go back over what we call that TBA model. And as you remember, back in January, we made an initial presentation for discussion. And in March, it was also discussed for risk analysis.

It probably would be good to review this, and just because it can kind of be a little confusing as to where this is headed. But what we would like to do is kind of walk through an example of how this model works. And it might be better if I use -- if I use that one, can you turn -- is it okay to turn this one?

So basically the TBA model provides a vehicle for our products to reach our target populations. So initially, we have approved lenders. These approved lenders are going to originate and credit-underwrite what we call the "first loan." The first loan will be a 30-year fully amortized fixed loan. So it's really an approved lender's money that comes in up-front, along with what we have as our down-payment assistance programs. Those down-payment assistance programs combined with the first loan create this product, which we want to, again, get our products out to our designated groups.

So if you follow this, what happens is, CalHFA reviews the first subordinate loans -- the first and subordinate loans for compliance and approval prior to the loan closing.

This dotted line resembles the loan -- is the loan closing date. So now, the loan is closed and the lender funds and closes the first loan with the subordinate debts.

So what is the significance of that? To this point is, there is a contract with CalHFA and its master servicer. What the master servicer does, is provides a service in that they will pull these loans, and in pulling those loans, and forming securities, which are more liquid and less risk, all right.

As part of this whole process, we're only talking about the first loan now, in terms of securitizing, they have pooled these loans. The master servicer will then, for a momentary short period of time -- an hour, to a day -- sell those securities to CalHFA.

Now, immediately, there is the hedge facilitator we have a contract with also that will finance our purchase of those securities, all right.

At the same time, almost instantaneously, that master servicer -- master facilitator, sorry -- master facilitator will purchase those securities.

Now, the significance of that is, in this whole line, the progression for the first loan, is that the risk, the risk never really falls on CalHFA. At the end, really it's the hedge facilitator taking the risk.

Now, this is kind of something we ran through -- Tia, did you have a question?

MS. PATTERSON: I must have looked like I had a question, huh?

MR. OKIKAWA: Yes, you did. You did. And I'm sorry, there was really a basic --

MS. PATTERSON: No, but I do.

So you're saying the risk is falling on the hedge facilitator?

MR. OKIKAWA: Yes.

MS. PATTERSON: But the time period that the Agency is holding on to it, is there a guarantee that the hedge facilitator is going to buy it? I mean, what happens if they don't buy it from us?

MR. OKIKAWA: We have a contract with the hedge facilitator.

MS. PATTERSON: That requires that they buy it?

MR. OKIKAWA: That requires that they buy it.

MS. PATTERSON: Okay.

MR. OKIKAWA: Now, thinking also along those lines, what risk could there be? At the point when we buy it, that the hedge facilitator, say, goes bankrupt, et cetera. We would still have securities that we could sell.

So, once again, it's not a hundred percent risk-free, but it's minimalized.

MR. JACOBS: For loans that get kicked out during the securitization process, what happens on the second in those cases?

MR. OKIKAWA: On the second, if the loan gets kicked out?

MR. JACOBS: Yes, like if the first loan gets kicked out during securitization?

MR. GIEBEL: We don't fund it.

MR. OKIKAWA: Then basically, there's just a loan.

I mean, there wouldn't be -- we would still have -- I guess at what point here are you talking that it gets kicked out?

MR. JACOBS: During securitization. So for some reason, the loan, it gets audited, and someone does not like it, it's not eligible, it gets thrown out of pool. Are we still doing the second? And then --

MR. GIEBEL: No.

MR. JACOBS: Okay.

MR. OKIKAWA: That would be before we do the approval.

MR. GIEBEL: We haven't funded.

MR. OKIKAWA: I'm sorry, go ahead.

MS. PATTERSON: Okay. So our second only goes in if the first is part of the secured pool?

MR. OKIKAWA: Right.

MS. PATTERSON: Okay.

MR. GIEBEL: And that would go back to the master servicer.

MR. OKIKAWA: And the master servicer wouldn't secure, wouldn't pool and securitize --

MR. GIEBEL: It's their loan now.

MR. OKIKAWA: -- until we actually gave approval.

MR. JACOBS: And are we doing random audits on --

MR. GIEBEL: Yes.

MR. OKIKAWA: Go ahead, Grant.

MR. BOYKEN: You might have said this, and maybe I didn't hear, but at what point in the process does our contract with the hedge facilitator get signed?

MR. OKIKAWA: It's signed ahead of time.

MR. BOYKEN: Okay.

MR. OKIKAWA: But if your talking about the actual -- when we are actually looking at the pricing of this --

MR. BOYKEN: Right.

MR. OKIKAWA: -- it would be before the loan closing through the contract.

MR. BOYKEN: Thanks.

MR. OKIKAWA: So under that scenario -- let's look at that as the basic model of the vehicle, right, on how we want to get our products out.

So in the past, what we've talked about, we talked about CHAP, CHDAP loans, and everyone has heard all these acronyms. So let's talk a little about what they really are and how we can get those products -- and we will talk about who those products will go to, and that will be Ken's part of the presentation.

But initially, when we're looking at the origination process, whatever products we're looking at combining, let's look at a CHAP-CHDAP combination now.

CHAP is California Housing Assistance Program. It's basically statutorily provided: I think 51504. And so -- I'm sorry, I'm sorry, CHAP is our money, CHAP is our money. It's is not statutorily provided. CHDAP is the one that is statutorily provided. So CHDAP is California Home-Buyers Down-Payment Assistance Program. And that one is 51504.

So the distinction is, this other money, the CHAP money, is basically what we would consider our money.

And the CHAP money would be an addition, like a 3 percent down payment, to, say, the CHDAP money. And I'm hoping the acronyms aren't confusing many people.

So these down-payment products are associated with the first loan, the first loan being the FHA 30-year fully amortized loan. At closing, the lender delivers the subordinate loan to CalHFA, which are our loans, not to be confused with the first 30-year fixed, right. So basically, because we're able to supply this subordinate loan, the CHDAP and the CHAP, it comes down to the end: What price are we going to get for that, in terms of on the first?

So some of those are sold for what we call a premium.

If you're able to get the CHDAP and the CHAP together, because of the extra CHAP loan, that we can buy those -- I mean, we can actually sell those for a premium to the hedge facilitator.

So that's what we're talking about later -- or earlier, when I was talking to you, Grant, about the difference, say, between the market and the premium rate. Because of the extra CHAP down payment, the borrower, because of that deeper down payment, is now willing to pay a little more in the interest rate. And because they're willing to pay a little more on the interest rate, the value of that is higher in terms of the security.

So what will happen is, at the front, we want to have, say, what we call a premium, 104 percent premium. For example, if it's, say, a hundred dollars, and a 104 percent premium would be at a certain interest rate, that is predetermined with our contract with the hedge facilitator.

So I'm trying to work this through because it's getting a vehicle that's getting our products out to the types in our target populations.

So that, in essence, what we are doing is either doing the premium loan or what they call a "market," okay. And that depends on the earlier values that we determined, what premium we want to settle this thing.

Is that helping? Any other questions about that?

I mean, I'm trying to make it so we can distinguish between what we call the premium loans and the actual market loans.

Now, the market loans would be the ones where the first, the FHA first, would say just "CHDAP loan." The CHDAP loan doesn't really have a premium for it because it's really just the basic CHDAP loan, and that's at the 3 percent down payment.

And so going forward, at the end of the deal, that's really pretty much what other lenders can provide, is really the CHDAP loan.

What is our space in this is, no, if other lenders can provide that, we're looking for new niches. We're looking for what is our place in this marketplace? What can we provide that other lenders don't provide?

And when we add on the CHAP loan that's actually our money, that's really where it's the extra down payment that can allow for this premium, which can allow for us to reach certain target groups.

And so those target groups, which we will likely discuss, and Ken will go through some of the demographics and some statistics in which our entire crews are.

So what happens is, like what Tim was talking about earlier when he had that slide, if we had to finance the CHAP loan -- because that's our money, right? So the money has to come from somewhere, and there was that $3 million that Tim had showed from single family lending. Part of that $3 million would actually finance, finance the CHAP loan until you get to a point where the actual security is sold.

So if, for example, we're talking a hundred dollar example, which is a par example, if we were able to get the premium, which means 104 percent premium, there is 4 percent that we would make off the first loan.

Out of that 4 percent, since it's a 3 percent CHAP down payment, we would pay that CHAP loan, 3 percent, right? Keep that 1 percent as the profit.

And eventually, that 1 percent will keep building. And we would have a pool, which could then be our line of credit on that $3 million. And we could take out that $3 million and kind of self-supporting for the CHAP.

I'm hoping this is helping. But is it -- if anybody has questions?

Tia?

MS. PATTERSON: So the total down payment would be like 6 percent as opposed to 3 percent, because you're using a mixture of finances?

MR. OKIKAWA: Basically, yes.

MS. PATTERSON: And then who is responsible for paying the second? Does the borrower -- is the home buyer paying the second? Because I thought you just said that we would be paying down a portion of that.

MR. OKIKAWA: I was using that -- I'm sorry if I didn't clarify that. But it was really the warehousing of that money, until we actually get to the point where the securities are sold. So that we would get that -- pay that premium so we could pay off that part of the loan.

So really it is just the warehousing part we are talking about, not --

MS. PATTERSON: Okay. Physically, who is paying?

MR. OKIKAWA: Meanwhile, still, the borrower is still obligated under the note.

MS. PATTERSON: Okay, so the second isn't like a deferred, forgivable or something like that? They're actually making payment? The home buyer is making a payment?

MR. OKIKAWA: It's deferred, but they still are obligated. They aren't making payments. It's deferred. It's not a grant. It's clearly a loan.

MS. PATTERSON: Deferred...?

MS. ANGST: To pay.

MS. FALK: So when is it paid?

MR. OKIKAWA: Pardon?

MS. FALK: When is it paid?

MR. OKIKAWA: It's usually paid over -- usually they match the period of the loan, which is usually 30 years. So it's coterminous with the first.

MS. PATTERSON: So they don't have any payments due until the end of the 30 years?

MR. OKIKAWA: Right, right, most of the interest deferred, usually at 3 percent.

But, once again, when we're looking at this, the TBA model is the deal. And we're looking at what risk there is to the Agency. It's like, okay, now, we have the car, it has the air bags, it has the steel frame. Where are we going with this? You know, what products do we want to get out there? And that is what Ken, right now -- and that is part of the presentation where Ken is going.

And so we'd like to kind of show you a few more slides as to where we're headed with this in terms of our target groups and target populations.

Ken?

MR. GIEBEL: Good morning.

I'd like to take you through some background information so you get a feeling for -- we have a pretty distinct first-time home-buyer market for low- to moderate-income Californians.

I'm going to take you through who the current CalHFA borrowers are, because right now, we are supporting the FHA market for first-time home buyers. We have kind of a percent I'll go over with you later in the presentation. We will do about -- in this fiscal year, we will do about 6,400 CHDAP loans. We're going to be close to $40 million in CHDAP financing. 97.5% of those loans are with FHAs, and they're all first-time home buyers.

Then Sheryl Angst, who is the project manager on these products, is going to talk to you about some product parameters. We've separated these into two kind of pools of products. One, we're calling the core products. We talked to you about that. And the other are some pilot programs, built around some specific initiatives that have been laid out by the Governor and also laid out around economic development.

And then we'll talk to you about our recommendations and the timing.

Hedge facilitator was discussed. That RFP is due the 21st of May. We have to have that selection made by the first week of June. So we are proceeding. And we have a master servicer lined up; we just need to get the contract in place.

So with that, these are overall loan statistics on CHDAP from July through March of 2012-13.

We had purchased -- these aren't reservations, the reservations will be about 30 percent higher than this -- 3,000 -- a little more than 3,000 CHDAPs. 97.5 percent, as I said, are with FHA first mortgages. 64 percent of these ethnic borrowers that are listed here.

Interestingly, if you were around CalHFA in the late 1900s and 2000, this is pretty much what our population used to be when we did FHA loans. I think the highest I've ever seen Hispanic actual purchases of CalHFA products is about 56 percent.

15 percent of them are single head of households, and half of those are single-female head of

households, just to let you know. Those are the average sales price and purchase price.

The CHDAP loan amount, which is 3 percent. So they have about less than a half a percent in there.

This is where we're doing business. This, again, as Peter will tell you that, is pretty much what we used to do around 2000, when we did the FHA business. We were located in the Central Valley and the Inland Empire. Those are the loan counts by counties, and 75 percent of our CHDAP loans are in those seven counties.

Yes?

MS. PATTERSON: Do you know the historical trends or default rates of the FHA loans? Like --

MR. GIEBEL: Well, I could go back -- and I think you'd have to look at two pools, okay.

The pools from the 1998 to about 2002 were very small.

Off the top of my head, I'd say about less than 4 percent -- in these markets.

When you get to 2000, it's not really apples to apples; because from 2005 to 2007 and a half, we didn't do FHA business. It was too small because they weren't really in the market because the sales prices were up over their low four-seventeen, even in these markets. So that's the issue.

We can tell you that when the LTVs, because of being underwater, went over 125, even as high as 187, yes, they were about 17 percent, when people started to walk away.

MS. PATTERSON: Because what I'm trying to do is, I'm trying to match when we started getting into trouble with the trends. And I'm making assumptions here, but I need to be corrected, if I am incorrect.

So when we were doing FHA loans to this targeted population, our default rate was much lower?

MR. GIEBEL: Yes.

MS. PATTERSON: It's when we stopped marrying our product with the FHA products and that population, that we started to get in trouble?

MR. GIEBEL: Right. And it's not that we stopped doing FHA loans. We did some; but there were, first of all, a lot of lenders basically stopped doing FHA. They didn't push those. They started pushing the other products because the sales prices went up so high.

MS. PATTERSON: And FHA wasn't available for those?

MR. GIEBEL: Right. And in a couple of lenders -- I mean, even in people like Wells, you had trouble finding someone who would write an FHA loan.

MS. PATTERSON: Yes.

MR. GIEBEL: So it's really hard to compare.

Now, if we go all the way back to the early nineties, when the market went down again, yes, the rates were over 5 -- 5 to 7 on FHAs. But around 1998 to 2002, they were low, 4, so…

So we've seen some studies, I've shown them to Claudia on the LTVs, and it's between 95 and 105.

What happens when people's houses go underwater? The LTVs go out the window, and they're at 150, and they just don't -- it doesn't make any sense anymore. Again, you're trying to compare LTVs when they were underwritten, and then they're way underwater, so…

MS. CAPPIO: And through the Chair, if I may, I think the key factor for me, with 20/20 hindsight, is the appreciation or the meteoric rise in property values and the race that we've made, however ill-informed it turned out to be in hindsight, to try to keep up with that. And there's a place that you say we can't go there. And I think we're going to be doing that differently than last time around.

MR. GIEBEL: As I think we mentioned this the last time, we have gone back, Sheryl and staff, we've gone back and looked at everything, we've looked at best practices today and what the other HFAs are doing with similar TBA models; and we think the way that we have put the parameters together, the ability, as everybody's talking, is the ability to repay, I think we've addressed that in a very responsible manner. But we will get there.

MS. FALK: Can I ask you a question?

MR. GIEBEL: Yes.

MS. FALK: You had mentioned that the demographics were different after you stopped doing the FHA loan.

MR. GIEBEL: Oh, yes.

MS. FALK: What were they?

MR. GIEBEL: Well, I can tell you as a fact, that the Hispanic loans went down in 2007-08. They were down below 20 percent, Hispanic families; and the Anglo and the Asian loans -- I think our Asian loans went up to -- let me see, what are they here -- they were about -- I think they got up to 10 or 12, and the Anglo market was in the forties.

So the whole demographic shift -- and to be honest, with our down-payment assistance program, we supported some of that shift. We had HiCAP, which was our money in high-cost areas of San Diego, Santa Clara, San Francisco, the East Bay; and we had CHAP in the other markets. And the localities help support that because they did overlays on those products. So it was kind of like just throwing gasoline on the fire. So the demographics shifted considerably.

And this is -- what you're seeing here is a major change shift back to FHA-based products and FHA-based borrowers, okay.

65 percent -- and this is the highest percentage I think we have ever done -- I could be wrong because I'm old, but I'm not that old -- is 80 percent of median income. That's a very high figure that these

CHDAP loans are being used for. And you'll see something else out there.

I just threw in the affordability indexes in these counties.

You can see the State is at 67. We looked at -- this is a March number. At the bottom, I put high-cost counties. But you can see Riverside, Sacramento, San Bernardino, Fresno. Those are their affordability indexes.

L.A., 61. But where we're doing business in L.A. is Compton, Lancaster, Antelope Valley, and the outlying areas. That's where our loans are. L.A., 658. 85 percent of them are in that locality inside L.A. County.

So then we went in a little deeper because we wanted to take -- and I'll run through these quicker. We went a little deeper, and we pulled some loans and did an audit in these seven counties, to see what the borrowers looked like, where we were doing 75 percent of our business.

The average appraised value is one seventy-five. That's $25,000 lower. And you can see the average price. The CHDAP is a little lower.

And the statistics are a little bit higher. So instead of 60, we are up 64 to 65, loans to borrowers were up to 67 percent, 80 percent median of income.

And you can see the average ratios -- you might want to remember that number for something we're going to show you later, in the FICO scores. And so that's what that profile looks like of borrowers in those seven counties.

Interestingly -- yes?

MS. PATTERSON: So I don't see very many Northern California counties.

MS. CAPPIO: Right.

MS. PATTERSON: Is it just because it costs too much to live there?

MR. GIEBEL: Yes. And if you look at the income, it's driven around, we have income limits on the CHDAP loans also. And you get into two families, in some of these counties, you're over the limit.

And the CHDAP limits, income limits are pretty low.

MS. WHITTALL-SCHERFEE: When were these sample loans from?

MR. GIEBEL: At the same time, in March. We picked from January to March, for the 154.

Interestingly, these same -- we took the 154 in the seven counties, and we looked at the average bedroom size, average square foot, what the average principal and interest, and what the average rents were in these markets.

So you can see the population we're serving, we're saving them a considerable amount of money, because we had 3.58 was yesterday's 30-year fixed rate for FHA. It's cheaper for them to buy than to rent homes. And this is not atypical of anywhere.

So we're actually helping people, regardless if their home appreciates, they should be able to build some wealth by saving 400 bucks a month.

And just to let you know, in these counties, all home sales for FHA were 48,000. Those are the number of CHDAPs that were purchased. We did about 9 percent of all FHA loans in those markets.

Of first-time home buyers, it's an estimate -- FHA first-time home buyers are about

38 percent of FHA loans across the country. We don't have it for California.

If you just assume it's a third, and you say ours is about 9 percent, we're doing somewhere between 25 and 30 percent of the first-time home-buyer FHA loans in these markets with down-payment assistance.

I'm going to turn this over to Rick to talk about the objectives of the products. You're going to see in a few minutes -- in a minute or so.

MR. OKIKAWA: Before we do that, can we go back to, I think it was slide -- page 7 -- there. "It is currently more affordable to purchase a home than rent a similar home in many counties."

The reason we're going back to this slide is, when we're talking about the vehicle, when we're talking about the TBA model, and they were saying, where are we going with this, where are we going with our products? And clearly to us, this is a very strong indication of where we need to go. And if you look at these rents, for example, in Los Angeles County, when you're looking at a differential between the rents and what the P & I is, let's also throw in taxes and insurance, so PITI.

And if you're looking at the differential there, say, you know, tax and insurance and let's add on another $300. So if you're looking at the average PITI, you're looking maybe in Los Angeles somewhere around, oh, let's go as high as $1,200. You're still saving anywhere between $247, and up to, say, $700 a month. And that's after-tax dollars that these people are paying for rent.

So after-tax dollars, if you're considering that, you're looking at a pretty substantial amount of income.

If you're looking at $700, maybe you are looking -- if you are even in the 30 percent bracket, you're looking at a thousand dollars gross that these people who don't have the ability to put the down payment now, we could put those people into the housing with the extra down payments that we have. And that is the key is, like, if we use, say, CHDAP, and you add that extra CHAP down payment, these people now can enter the housing market, build equity, build wealth, and save that kind of money.

And, Matt, what we're talking about before, in our previous board meeting, that there is this cushion. And where would that cushion come from? We could put up reserves, things like that. Just in case a refrigerator goes out, something like that, right? We're saying that the money that they can save, you know, just by not having to pay rent, the fact that they can save that kind of money allows for cushion for these kind of situations, along with other parameters which we're asking the Board today to approve, such as home warranty insurance, et cetera.

But because of that, we're looking at this population, this particular population, and allowing them to enter the household.

And that's why we are really looking at this very closely. Because if you go down the whole line from Los Angeles, all the way down the San Joaquin Counties, you'll see the rental differential.

Now, also, on the other hand, about building wealth, in terms of the P & I, there's also the interest deduction. All right, and so what is real important here is that not only will they get the interest deduction, it's also possible if we can mix and match with our products, that we could use mortgage credit certificates.

And mortgage credit certificates are actual credits as you well know, Tia. They are actually credits against the income, which even means more savings.

So instead of, you have a $500 mortgage credit versus a $500 deduction -- you know, a $500 deduction would only allow maybe, if you're in the 30 percent tax bracket, what, $1,500 of savings. Whereas I'm sorry, $150 worth of savings. Whereas if you aren't getting that tax credit, that $500, that's substantial, in addition to the rent savings. And so that is the target population, what we're looking at with this CHAP-CHDAP.

And by combining those two products, we are able to reach that population, get people into the homes, at a stage where it would take years for them to build that kind of home down-payment assistance, and have them build wealth.

Matt?

MR. JACOBS: What percentage of these

transactions are in attached product, a condominium or --

MR. GIEBEL: Excuse me, what did you say?

MR. JACOBS: What percentage of these are in attached product, townhouses, condominiums?

MR. GIEBEL: Pretty low.

MR. JACOBS: Pretty low?

MR. GIEBEL: Sheryl looks at -- we review all the CHDAPs for compliance up-front, so we approve the loans, and later we purchase them.

So you would say --

MS. ANGST: Currently, probably 10 to 15 percent.

MR. GIEBEL: And virtually, none of them are new construction, either, just to let you know. Because as that market starts to bubble up, we should see more of that business. But it's not new construction, either.

MR. OKIKAWA: Yes, so back to the objectives -- and this is pretty much just what we were just discussing -- but, you know, much of the objectives enable these low- and moderate-income first-time home buyers to enter the market. And by being able to enter the market now rather than have to go -- I mean, rather than wait years before they can save for the down payment, they can build this wealth, they can build this equity.

And in this way, we can provide for first-time home-buyer loan products for a special public-purpose types of loans.

So when you look at the resolution which pertains to this -- it's 13-09, I believe, Item 12 -- when you look at that resolution, what we're asking is that you look at -- as the Board provides certain parameters, how we can make loans, and how we can mix and match some of our products. And in order to meet the changing needs and the changing demographics of the state of California, what we're asking, is that we go by these parameters rather than discussing with the Board the new loan products.

But we're able to use these certain parameters to make loans. And that way, we can mix and match and meet whatever needs, and be flexible to meet the needs of the state of California.

Clearly, we will be monitoring these loans. In regards to whatever the parameters we decide on today, we will be monitoring all these loans very closely, especially loans with high loan-to-value.

And so we want to let the Board know that we're not just saying, okay, we want to make these loans and then we'll forget about them. We want to make sure that the Board -- everybody is aware that we will be looking at these loans, monitoring them very closely down the future.

And that is pretty much what we are looking at, in terms of our objectives.

MR. GIEBEL: Just to let you know, we monitor these loans on a quarterly basis. We break out the CHDAPs and look at them this way, just to make sure we know what's going on with the population, and also to project how much money we're going to -- because it is bond money on the CHDAP. So we have to keep an eye on that, because we have to go request it, that it be moved into the account; so we do take a close look at them.

Just one other statement and then I'll turn it over to Sheryl, is -- the interesting part is, if you get the mortgage, you can budget and you can plan. In this day and age, it's very difficult to plan rents because they keep going up. They keep going up to the tune, in some areas -- in the Bay Area and L.A., they're up 8, 9 percent a year. So that spread could even get bigger until there's more units built for sale.

So, anyway, Sheryl, we're on page --

MS. ANGST: 10.

MR. GIEBEL: 10.

MS. ANGST: Good morning.

Let's start with the proposed Phase I products. The first one are our core products. In developing and looking at the core products, we actually spoke to our lenders. We had several focus groups. And the one thing that our lender said that all the borrowers had in common, was they did not have money for down payment. So these products were developed because of that.

The first one we're calling the "CalHFA FHA Premium." Using the TBA model, what we will do is have a guaranteed rate and premium price that will be set by the hedge facilitator.

We're using 104 in this example. The 104 percent is going to allow us to provide down-payment assistance, or the CHAP in this case is, for the borrower. The CHAP is for down payment only; it cannot be used for closing costs. So it is not going over the 100 percent loan-to-value.

This product is distinctive to CalHFA. And the reason it's distinctive to CalHFA is because our down-payment assistance per FHA guidelines is allowed to be counted as the borrower's own funds. No other lender can do this.

This premium product can be combined with our existing CHDAP.

A second product we're going to do is a market-rate FHA. The market-rate FHA is not distinctive to CalHFA. Anybody can do it. However, we have the Extra Credit Teacher Program, which can only be used with the CalHFA first mortgage. This gives the borrower up to -- the teachers up to $7,500, or 3 percent, the greater of; and in high-cost areas, $15,000, or 3 percent of the sales price to use for down payment.

Again, down payment only.

MS. PATTERSON: How do those borrowers look? Do they look different?

MS. ANGST: The teachers?

MS. PATTERSON: No, the premium -- those that you would provide with the premium down payment and those that would get the market rate. Do the demographics of those borrowers look different?

MS. ANGST: The demographics are going to be a little bit different because to use the market rate, well, they're going to have a lower interest rate; but we don't think it's going to be used all by itself. We think it's going to be used either primarily with our CHDAP or the Extra Credit Teacher Program, because it's not distinctive to CalHFA. It's what everybody else can do. It's only here because of the Extra Credit Teacher Program.

MS. PATTERSON: And you would only do it if you were marrying it with the Extra Teacher Credit or something else?

MR. GIEBEL: I think to get to your first question, to answer it, I think what it will do, it is the same population as the CHDAP population that you just saw; I think it will permit a little bit deeper on the lower income of the moderate side, because it will give them more down-payment assistance. So we expect it will go a little bit lower on income.

So that 64 percent number you saw could go to 67 or 68. But it's still an FHA-built product against an FHA target audience. We're just going to give them a little bit deeper.

MS. PATTERSON: So you anticipate that the premium, the buyers will be -- you'll have more lower-income buyers using that?

MR. GIEBEL: We think so.

I think so. I can speak for myself.

Yes, we do, because we don't think the markets are going to change. Those counties are going to change because of the affordability indexes.

Now, as you know, as you've all read, it's pretty hard for a first-time home buyer to compete for a home in markets like Sacramento. So maybe Sacramento will go down.

But the Inland Empire and Fresno, where there are still affordable homes left over from the bubble, we think, yes.

MR. OKIKAWA: And, Grant, when we had talked a little bit earlier about the market rate -- and this is where we're talking about with the Extra Credit Teachers Program -- this may warrant a market rate rather than a premium.

MR. GIEBEL: And we're giving them the option. So if you don't want to pay the premium interest rate, you can go with the regular FHA and use the products that way.

With the MCC, we're just giving them the opportunity to come to one place to do that. Because right now, as I said, 97 and a half of them are using FHA products with the CHDAPs.

MS. WHITTALL-SCHERFEE: Ken, if they're going to use the FHA products without any of the premium, does it really make any sense to use the CalHFA product, or will they just go to another --

MR. GIEBEL: If you want to use the Extra Teachers Credit Program, you have to use it.

MS. WHITTALL-SCHERFEE: Right, with the Extra

Credit. But if you're not --

MS. ANGST: No, it does not.

MR. GIEBEL: No, it doesn't make any sense.

MS. WHITTALL-SCHERFEE: -- then you would just go somewhere else, wouldn't you?

MR. GIEBEL: No. And they would come to us for the CHDAP, like they are doing now.

MS. WHITTALL-SCHERFEE: Yes.

MR. OKIKAWA: And that's the difference. We are trying to distinguish, what can we offer that nobody else can offer. Yes, we can offer the CHDAP, but everybody else can offer that.

It's the CHDAP and the CHAP and the Extra Credit Teachers Program. And that's our target, and that's why we're lending again.

MS. PATTERSON: And the market rate is the statutory money, the CHDAP money, right?

MR. GIEBEL: Yes.

MS. PATTERSON: Okay.

MR. GIEBEL: Yes, that's 3 percent. That's it.

We can do some things to it. We can't

increase the 3 percent, but we can do some things to it.

CHAIR CAREY: And what's the status of the remaining CHDAP fund? Is there --

MR. GIEBEL: We're good for a bit. Not forever.

You know, it's bond money. And we're using it pretty quickly.

I mean, to be honest, it's the only down-payment assistance really available in the state.

CHAIR CAREY: Right.

MR. GIEBEL: And we are now going to be up to 73 lenders; and we've never been that high.

And, too, just to let you know, you have to be a CalHFA-approved lender, and you have to be a master-servicer approved lender. So that will cut down on some of the lenders -- not many. Most of them already are. Okay.

Keep going, sorry.

MS. ANGST: Okay, that's all right.

The Extra Credit Teacher Program is for down-payment assistance only. And they can also use that with the FHA premium. So if they chose to, it would just give them additional down payment. The first mortgage would be reduced.

Now, our existing CalHFA MCC product can be used with either one of these. And just so you know, to date, the program launched a year ago, May. We've taken 451 reservations so far.

MR. GIEBEL: And every month, they are going up.

MR. OKIKAWA: And just to be clear on the Phase I products, these are products that we already have in existence.

Now, we'll be looking at proposed Phase 2 mortgage products. And Sheryl will go in more depth on that.

But I think, Tia, in the January Board meeting, you were asking a lot of questions about this energy efficiency. So hopefully, we can answer those in this presentation.

MS. ANGST: Okay, on the Phase 2, they are the proposed pilot programs. The first one is the CalHFA FHA first mortgage with the energy-efficient. This is to address the stas- -- I'm never going to be able to say this word --

MR. GIEBEL: Sustainable.

MS. ANGST: -- sustainable and energy-efficient goals.

Basically, it is a premium-priced first mortgage. It's going to be financed very similar to the premium loan. We're going to use the money, and we're going to give a grant to the borrowers. This grant is going to be over and above the actual FHA energy efficiency.

So it's going to allow them to have additional improvements to their home, and promote greater energy efficiency.

The second one is a public-private loan program. We currently have $9 million of HPA funds. And that's the home purchase assistance. It's a general fund, and it's recycled funds. The HPA funds will provide a matching down-payment assistance, which will match the employer's.

So we're going to target companies that provide some type of public assistance and are in a growing employment market, i.e., health care, Pixar, waste management, et cetera. So we're going to hopefully, between the employer and us, give them an additional down payment.

MS. WHITTALL-SCHERFEE: What is the anticipated source of the CalHFA grant that you're considering?

MS. ANGST: The energy-efficient grant?

MS. WHITTALL-SCHERFEE: Well, you said that there's an additional CalHFA grant, and I was just wondering what the source is.

MR. GIEBEL: It's that premium --

MS. ANGST: The premium price.

MR. GIEBEL: The premium price.

MS. FALK: What is the -- how much difference is there between the premium price and the regular loan?

MS. ANGST: In interest rate?

MS. FALK: Yes.

MS. ANGST: Approximately a quarter to half a point.

MR. GIEBEL: 25 to 50 basis points. More likely 50 now, yes.

MS. PATTERSON: So, we were having a little sidebar over here, so, I'm sorry, I missed that.

The one where you're going to target the companies with the public, is there a geographic location that you would be targeting that to?

MR. GIEBEL: Yes, we're going to -- we're actually talking to Google. We're going to the South Bay, because we know they are interested in housing; and we know they have had, in the past, housing assistance programs.

So we're going to talk to health-care people who eventually are going to have to attract some employees; and, two, to people in employment areas. And we are going to talk to the Silicon Valley people because they do -- they have a housing shortage, and they seem to be willing to listen.

So we'll go talk to our friends at the Silicon Valley banks.

MR. JACOBS: Universities as well, USC I know would be a good partner.

MS. PATTERSON: Right.

MR. GIEBEL: Yes, that was one of the targets that Claudia...

MS. PATTERSON: And if you could get multiple benefits for kind of like that project area, like blighted communities that you can turn around entire neighborhoods, that would be wonderful.

MR. GIEBEL: Yes. So it's going to be many discussions and a lot of outreach. Because it's difficult to get to the right person that talks about that. Because we have already found that the HR departments don't want to talk to us about that; it's the investment people we have to talk to.

So, anyway…

And you have one more, right?

MS. ANGST: I have one more.

The third product that we are proposing for the pilot is a CalHFA first mortgage, which will be in the metro urban area. And it's going to be very similar again to the premium first mortgage. We're going to finance it with premium-priced mortgages. We're going to up the amount of the CHAP from 3 and a half percent to 4 and a half percent. And this is to work in areas where there are transit areas, as defined by the Agency and ZIP code. We're going to kind of work with the high-speed rail and pick out areas.

And then again, all products can be combined with either the CHDAP or the MCC.

MR. GIEBEL: So as we said, we did look at what's being done across the country by the HFAs. And we have put these guidelines together. This is what we're working off of for all these products. So these are our general guidelines.

Go ahead.

MR. OKIKAWA: And, I'm sorry, these are the parameters we're talking about on our resolution, I think it's 13-09. And so these are the parameters we're asking the Board to approve.

MR. GIEBEL: And as you know, there is stuff coming out from Fannie Mae and Freddie, it came out this week. And then we have stuff from FHA, and we have Dodd-Frank. So we've kind of looked at that, and this kind of addresses different elements in that right now.

We're looking at -- there are 30-year fixed mortgages, FHA mortgages -- all of them. We're looking at a minimum credit score of 640.

We came up with that when we first started. Our master servicer will not accept anything less than 640.

Home-buyer education, for CHDAPs, currently, you have to have a home-buyer education certificate. We are going to institute our own CalHFA home-buyer education. We're going to do it through eHome, who has an alliance with NeighborWorks.

So just to let you know, if you want one of our first mortgages, you have to do CalHFA's home-buyer education.

It costs $50. There's an online version, English and Spanish; and you can go to a counselor, and you don't have to pay for that. It's included in your $50, so…

MR. GUNNING: Ken, just a point on that.

Rick, earlier, you were talking about using this difference to build wealth. I think it's just as important to understand that you got to use that to pay if something happens to the home, which goes to the education piece.

MR. GIEBEL: Right.

MR. GUNNING: So I can't stress -- I mean, this is so critical for new home buyers to understand about maintenance and taking care of homes, so…

MR. GIEBEL: Michael, if you'd like to -- Claudia asked us to make sure that the people we picked -- selected -- went beyond just home buyer education. It is about financial literacy.

I can send you the link to the eHome people. They sent us an example; and it's really good. It takes about five hours if you're a first-time home buyer.

CHAIR CAREY: It's really very good. We're committed to it. We use it.

MR. GIEBEL: Yes?

MS. PATTERSON: And I guess I was going to ask that question: What is the difference between a HUD-certified home-buying counselor and what you're offering?

This is more?

MR. GIEBEL: This is more, it's deeper, and it takes a little bit longer because of the segments of it. Because there's two segments that are definitely just about financial literacy, like, how to run your checkbook, that kind of stuff.

So, yes, this is being used by many of the HFAs now. Many of the HFAs did their own -- Colorado did their own -- and the maintenance of that got too expensive, so…

And this is really good for people who are in rural areas, who can't get to a counselor. And we have found out that just getting a certificate is easy from an MI company, so we don't want to go there.

MR. GUNNING: When you say "this," you mean the eHome --

MR. GIEBEL: eHome.

MR. GUNNING: -- the online?

MR. GIEBEL: Yes, the eHome, the online system, yes.

Debt-to-income ratio is 43 percent total DTI. That's the back side, okay.

Remember, if you saw earlier, right now, our CHDAP borrowers are at 45. So that's going to have to drop.

MR. OKIKAWA: I'm going to interrupt.

MR. GIEBEL: Some people will fall out then.

MR. OKIKAWA: Sorry, Ken, I think we skipped the major one here.

MR. GIEBEL: Oh, yes, I did. I was saving that for last.

MR. OKIKAWA: Maximum combined. Yes, why don't we discuss that now? And, obviously, this is the big point here, and it would be the 103 percent loan-to-value.

And as we discussed earlier, in terms of that one chart, and it shows that rents exceed -- in our seven counties, rents exceed the cost of owning. And what we've talked about was the differential that we possibly could save from not having to pay that higher rent.

And we're hoping -- and this is what you were talking about, Mike, when you were talking about earlier, about building wealth, and then saying, "Well, some of this -- well, they have to realize that some of this money may have to go for emergency repairs, et cetera," right.

So this is where we're looking at a combination of all these parameters to protect, you know; that the people aren't going to want to walk away.

And, for example, if the rents are so high, if you are going to walk away from your house, why do you want to walk away from your house where you're paying a higher rent?

With the fact -- combined with the savings that you can have on rents. We're hoping that is something to protect. Instead of doing a reserve, we're looking at saving this money for the rainy day.

And earlier, I think in the January meeting, Janet, you had talked about, you know, what was the reason for all this housing fallout, the housing crisis; and hopefully, that we don't go back to that, and realize that whatever the cause was, we need to be able to address that cause.

And as Ken had said a little earlier, you know, obviously, a lot of that was due to the financial market and the economy downturn, the unemployment, et cetera. And so if you're at 103 percent loan-to-value, 95 percent loan-to-value, 90 percent loan-to-value, people walked, anyway; because by the time your values were, like, at 150 percent loan-to-value, people walked. So it's difficult to determine the actual -- I mean, effect of loan-to-value. But clearly, it is an issue; and clearly, we're trying to address it.

And so I'm not exactly able to answer your question, but we don't believe we're going back into that whole idea about economic downturn as being the cause. And so we can't exactly say that we can prevent that, obviously, because we can't. But we're looking at what causes it, and we're looking at 103 percent loan-to-value. And we're clearly trying to address that in every way we can, to minimize the risk.

Okay, Tia has a question.

MR. GIEBEL: Yes?

MS. PATTERSON: How did you come up with 103?

MR. OKIKAWA: Do you want to go through the -- do you want to? Or I can.

MS. ANGST: You can.

MR. OKIKAWA: If you're looking at 96 and a half percent FHA first, and then you're looking at basically a 3 percent CHAP second, then we're at 99 and a half, and then you milking around another 3 percent on the CHDAP. So we're at about 102 and a half. But we want to use the round figure of about 103, so that's where it comes up.

MS. PATTERSON: So is the 103 on both products, or just the one that you're doing the 6 percent down?

MR. GIEBEL: It's on all products, even with the ECTP. And if you use the premium or you use the straight FHA, it's 103, period.

MS. PATTERSON: Okay.

MR. GIEBEL: They can't go over that.

MS. PATTERSON: So why wouldn't you use the 103 for the premium product and 100 percent for the other product?

MR. GIEBEL: Well, because -- would they count the -- if they use that in the Extra Credit Teachers Program?

MS. ANGST: Yes, all of our programs can only be used for down-payment assistance. So the only program that we have that will allow them to go over the 100 percent is the CHDAP itself.

MS. PATTERSON: Okay.

MS. ANGST: And generally, that's only when it's used for closing costs.

MS. PATTERSON: Got it.

MS. ANGST: 3 percent is also the actual --

MS. PATTERSON: It gives them the ability to use your other things and combine it -- in combination with it?

MS. ANGST: Correct.

MR. GIEBEL: Right.

MS. PATTERSON: Okay, got it.

MR. GIEBEL: We are asking them -- we've done this before on CHDAP stand-alones. We've asked them for a thousand dollars before. We're just tying the lower FICO score to $1,500, cash, and a thousand above that, 680, we're asking for a thousand dollars cash contribution. We have done that before.

Matthew, we have worked out a deal with a company to provide warranty insurance. It's going to be somewhere -- we don't have a final number -- of about $300 a year. We have agreed for the first two years to split that with them, 50-50. It covers heating, air, and basic appliances. I didn't put the garbage disposal in there because -- or a dishwasher because we thought you could dry your own dishes. I had to when I was little.

So, anyway…

MS. PATTERSON: So you've made that optional?

MR. GIEBEL: Well, they have to sign up for it because they have to pay --

MR. GUNNING: It's mandatory.

MR. GIEBEL: -- pay into it.

So if they're paying, I can't --

MS. PATTERSON: Well, in my opinion, I would rather see that to be required, and then get rid of the cash contribution, or work something out between the two.

But when I was a first-time home buyer, it was very important. I can't tell you how many times I used my homeowner warranty insurance because I was clueless and I didn't know what I was doing and everything was breaking. And I think that's extremely important.

MR. OKIKAWA: And thank you for that. We will make that change, and we will change the resolution accordingly.

Thank you.

MS. FALK: Well, are we talking about changing the cash contribution? Because I think it's really critical that people have some cash in the bank.

MS. PATTERSON: I don't mind you having some skin in the game; but if it's $500 and then required $500 to pay my --

MR. GIEBEL: It's about -- it will be about --

MS. PATTERSON: Just work that out.

MR. GIEBEL: It will be somewhere in the neighborhood of one twenty-five a year for them. And we'll pay the other one twenty-five.

And then after Year 2, we would assume they would have enough equity, or they have their budget straightened out that they can do their home warranty on their regular insurance policy.

Another thing to remember is, home-buyer mortgage protection, that will be covered by *Keep Your Home*.

So unemployment insurance, for their mortgage, that will -- we will let them know -- typically six weeks after they're in their home, we send them a letter to let them know they actually received a CalHFA-FHA mortgage -- because a lot of them don't know -- and that they received down-payment assistance from the State. And at that time, we'll let them know about the *Keep Your Home* program, should they run into a problem, and remind them about their warranty. Okay?

MR. GUNNING: I'm sorry, say that again, Ken. They don't know it's CalHFA?

MR. GIEBEL: Many times -- no, because remember, the lenders underwrite these loans, and they don't typically tell them --

MR. GUNNING: They're not going to tell them where it comes from?

MR. GIEBEL: No. You'd be shocked, Michael.

But that's okay. We let them know. We send them a key chain; and we let them know that: You have a CalHFA loan, all right. Put your keys on the key chain, and you're okay, good to go.

MR. GUNNING: Okay, thank you.

MS. CAPPIO: A T-shirt.

MR. GUNNING: A T-shirt?

MR. GIEBEL: And we just want to let you know that there are income limits on this. If you use a CHDAP, if you use an FHA with down-payment assistance, they have income limits, and they're lower than the actual CHDAP income limits, and there are sales price limits. And they are by county, okay.

So with that, I will just take you through our recommendations for Phase 1.

Yes, Tia?

MS. PATTERSON: So these parameters, do you have an idea of what the impact on the demographics is going to be? So if you know what demographics of who you think you might want to serve and who you have been serving, with these parameters, do you have a projection of whether those demographics are going to change?

MR. GIEBEL: We do not think so, except my comment, if we go from 45 to 43 DTI, it will knock some of them out. Maybe 10 percent.

And we also think, with the premium price product, that we will get a little lower income -- moderate -- lower, moderate income mix.

We have kind of -- not kind of -- we have built these around who we are serving.

MS. PATTERSON: Okay.

MR. GIEBEL: Because we see all the FHA first, because we have to look at those for compliance purposes, the CHDAPs they are attached to now.

Yes?

MR. BOYKEN: Let me follow up on that and ask, do we have a sense of how the demographics would change if we went to a different loan-to-value?

MR. GIEBEL: We could make a projection, yes.

If we dropped it to a hundred --

MR. BOYKEN: And, you know -- for a hundred, that just --

MR. GIEBEL: -- it would be pretty much right where we are right now, because that is what we are doing.

MR. BOYKEN: I guess that was the number -- and a caveat, I've had the least expertise, probably, at this table -- not probably.

But in the postmortem -- and I get the wealth-building argument. But in all of the postmortems, in most of them, one of the key issues -- of the recent housing crisis, one of the key issues, is the issue of not having enough skin in the game. And so I understand the population we're trying to serve, and --

MR. GIEBEL: Well, we can tell you, we went back and we looked at our loans during the housing bubble, and we looked at 103 to 107, 100 to 103, 95 to 100, 90 to 95. And we can tell you from 95 to 107 really didn't make a difference on foreclosures. It didn't.

I mean, the numbers are a little bit different; but when you look at the conventional products, no. We are talking degrees of percentages, okay.

MS. CAPPIO: Nevertheless, through the Chair, I just want to be careful that we are on it.

MR. GIEBEL: Right.

MS. CAPPIO: That this is a changing market. We're entering it in a different era, with a whole different set of buyer needs and characteristics, and we be will monitoring accordingly.

MR. BOYKEN: I appreciate that. One more --

MR. GIEBEL: And, Grant, one other thing to keep in mind. There's probably a pretty good chance that FHA may go to 95. So we won't get near 103.

MR. BOYKEN: And then one other follow-up to that, I guess when we -- well, I'll do it now rather than when we get to the resolution. But the terms that we approve now, if there is any changes that you would need, if you're seeing something different in the market, you would have to come to the Board first?

MR. OKIKAWA: In terms of the parameters, yes. But in terms of like what Claudia was saying, we would -- if there's changes, we are constantly monitoring this, we will keep the Board informed.

MR. BOYKEN: Thank you.

MS. PATTERSON: So along those lines, you know what kind of red flags you would be looking for, like, what are the things that would trigger me coming back and taking a look at this again.

MR. GIEBEL: Right.

MS. PATTERSON: I mean, you've looked at that, and you kind of know: Here's my data set, if something goes off the rails that I know I need to go back and do some analysis.

MR. GIEBEL: We have a projection on how many loans we're going to do and how much per loan.

MS. PATTERSON: Okay.

MR. GIEBEL: And if we start seeing that it's going up considerably higher, you'll know about it immediately.

MS. PATTERSON: Okay.

MR. GIEBEL: We also went back and looked at all the CHDAPs since we started writing them, again, in 2010. And it's pretty hard to say -- because it takes so long to get the foreclosure, and we can't look at delinquencies; but there's not one loan, CHDAP loan, since 2010 that's gone to foreclosure.

MS. PATTERSON: And is there any way that we could look at not deferring to the first, but actually having them make some type of payment towards that second -- I mean, the down-payment assistance, right now it's deferred for however long.

MR. GIEBEL: Well, we can tell you, some people pay the interest on their CHDAPs, so they don't -- it's simple interest.

MS. PATTERSON: And when it's refinanced or anything like that, is it required to be paid off?

MR. GIEBEL: Or you can resubordinate. That legislation went through on the CHDAPs earlier this year.

Because people that are refinancing, and what was happening is, we were holding up their refis. But you can refi. And the loan can go with the loan, the new loan.

MS. PATTERSON: Well, if you're refi'ing and putting in a backyard, but if you're refi'ing to buy a boat -- I mean, I don't want to subordinate to a boat.

CHAIR CAREY: Yes, are there any limitations to the refi?

MR. GIEBEL: No, no.

MS. PATTERSON: I don't like that.

MS. ANGST: It's hardship.

MR. GIEBEL: It's hardship -- oh, you have to have a hardship.

MS. ANGST: It's hardship.

MS. PATTERSON: Okay, so you can only refi if you're --

MS. ANGST: You can only resubordinate under a hardship.

MR. GIEBEL: Yes, sorry, you have to have a hardship.

Yes?

MR. OKIKAWA: And, of course, lately, we haven't had the issue of refi'ing because there hasn't been equity.

But, yes, in the future, in the future, absolutely, it's the hardship. And that's why we had to kind of think about that.

MR. GIEBEL: Yes. Our subordinations are up considerably because of the interest rate, and people are refi'ing.

We were doing 50. We'll probably do 600 this year.

MS. PATTERSON: I have to say that if there is the ability to pay on their down-payment assistance, considering that they're saving, I would like to see some of that repaid. I don't know how the rest of the Board feels, but it seems to me that we're creating wealth on one end, we're helping out a segment of the population that, but for down-payment assistance, wouldn't be able to purchase.

But I had down-payment assistance when I bought my first house, and I paid off that second. I had some savings, I had the ability to repay, and I repaid my second.

So I'd like --

MR. GIEBEL: But they have that option, it's just not a requirement in the statute.

MS. PATTERSON: And so the statute -- so you're dictated to defer because of the statute or --

MR. GIEBEL: No, you could --

MS. PATTERSON: -- we could require repayment, if you had the ability to repay?

MR. GIEBEL: I don't know. I'd have to --

MR. OKIKAWA: On the CHAP, I believe we can, because that is considered our money.

MS. PATTERSON: So our money has to be deferred, but the -- what about the premium piece?

MR. GIEBEL: No, the premium, we could --

MS. PATTERSON: Which one is required statutorily to be deferred?

MR. GIEBEL: CHDAP.

MS. ANGST: The 3.

MR. GIEBEL: The 3 percent.

MR. OKIKAWA: The 3 percent.

MS. PATTERSON: The statutory money?

MR. OKIKAWA: Yes. It's 51504 money, Health and Safety Code.

MR. GIEBEL: Yes, but you can. You can pay it.

MS. PATTERSON: Right. And that's the income population that if they did that, would be more likely to pay because of the mix, the premium, is the one that's going to be the lower income.

So the ones that are at a higher income are getting the deferred?

MR. GIEBEL: Right.

MS. PATTERSON: Right, okay.

MR. BOYKEN: Does the home-buyer's education emphasize the value of paying more upfront?

MR. GIEBEL: Yes. They talk about 10-, 15-, and 30-year fixed loans.

CHAIR CAREY: And just touching back on homeowner education, we're all convinced about how important it is -- I think everybody here, and it really is. Nobody pays for it, realistically.

MS. PATTERSON: Yes, it never gets paid.

CHAIR CAREY: Nobody pays for it. And so the reliance is on NeighborWorks organizations or whatever. And they have really limited resources.

There is one reason why the eHome works, because it is a reasonable fee, and it is a pretty good program out there.

MR. GIEBEL: Right, yes. And we looked across the country, and everybody's just charging. And it doesn't go to us; it goes to eHome. And that helps facilitate NeighborWorks, so…

So just recommendations, just to let you know, approval on the resolutions, we need to get the master servicer contract up and running -- or not running -- we need to get the contract approval sometime in May or early June.

We issued the hedging facilitator RFP. That will be proposals that are due on the 21st.

We moved the selection date for the facilitator to June 7th.

And that's our schedule, to try to get -- to announce the product sometime in July. Announce it -- like everything else, it will take a bit for the lenders to get up to speed, get the products in their systems. It will take us about six weeks to educate them. We have to do training with the master servicer, so we have dual training to do.

So we're thinking September we'll start seeing a volume of what we're going to get.

And then on the Phase 2 products, we're working -- we've done what we need to do on the energy-efficient program. We are going to work with L.A. Housing. We understand they have a pilot program. We're going to go talk to them immediately. And we have already started discussions on the third product, with the private-public partnership.

So we're working against -- kind of working backwards from a July time-line.

We just want to make sure for our first-time home-buyer population, we're giving them responsible mortgages that they can afford. And it looks like from how they're using CHDAPs, it's very affordable for them.

Thank you.

CHAIR CAREY: Thank you.

Are there any other questions or comments?

(No response)

CHAIR CAREY: Okay, we have two resolutions before us. The first is 13-08, which authorizes the TBA model.

And before the Board takes action, I would ask if there is anyone in the audience who would like to address the Board on either of the two actions ahead of us here?

(No response)

CHAIR CAREY: Seeing none, the first resolution is 13-08.

Do we have a motion?

MR. JACOBS: Yes, I'll make a motion.

MS. FALK: Well, I have a question.

MS. CAPPIO: On 08?

MS. FALK: On 08.

Is there some limit on the amount of this? Total amount?

MS. CAPPIO: You mean, that we would lend?

MS. FALK: Yes.

And does there need to be?

MR. OKIKAWA: There is no -- we don't have necessarily a limit.

MS. PATTERSON: What's available.

MS. CAPPIO: We have a target --

MR. GIEBEL: We have a target for staffing purposes; but there is no limit because they're FHA loans. We don't own them. We're not doing the insurance.

The only part, as I think Rick has mentioned and Tim mentioned it, is that pool we're going to build up to cover the CHAPs for the $3 million. And we're projecting in eight to ten months to have that money. So it will just be a revolving fund. And then all the rest of the money that we make would come into the Agency.

CHAIR CAREY: Really?

MR. GIEBEL: But we're not using our money, per se, other than -- we're using the statutes -- the bond money on the down payment, and the other money is out of a pool and gets paid back from the premium.

MS. FALK: So it's kind of self-limiting on the CHAP.

MS. CAPPIO: And staff as well.

MR. OKIKAWA: Tia?

MS. PATTERSON: What's available, what's in your pot right now to be able to lend? I guess I don't know what that dollar amount is.

So you have your --

MR. GIEBEL: We would need the $3 million, and that's --

MS. PATTERSON: $3 million, okay.

MR. GIEBEL: And Tim, I believe, has said that put aside.

MS. CAPPIO: Yes, that has been.

MR. GIEBEL: It's in the budget.

MR. OKIKAWA: That's put aside to warehouse on our CHAP money. And I know Matt had asked that before in the previous meeting because it's important that we have this warehouse initially.

But the actual premium, after we pay off the CHAP, that extra 1 percent, 2 percent, whatever we were getting, that's going to go back in the first year, of the pot.

And so pretty soon, like we're saying, within the eight to ten months, we predict that we will no longer need that $3 million set aside because we'll have our own self-funding.

MS. CAPPIO: So that would be revenue -- that would be counted as revenue to the Agency.

MR. GIEBEL: And, Janet, the faster we do that, the more loans we get, the quicker we cover that pool.

MS. FALK: Sure, okay.

MR. GUNNING: Mr. Chairman, that raises another question for me.

When Tim was up here, we talked about the $30 million, the 27 multifamily, three.

MR. OKIKAWA: Yes.

MR. GUNNING: That's what for then?

MS. CAPPIO: Three is the warehouse.

MR. GIEBEL: Three is the warehouse for the CHAPs that are built into the premium product.

MS. CAPPIO: And 27 is the multifamily.

MR. GUNNING: The multifamily, that's right.

MR. OKIKAWA: And in the model that we were looking at, the TBA model, basically, we have to purchase that CHAP from the lender.

MR. GUNNING: I got it.

MR. OKIKAWA: Sure.

MR. GUNNING: Thank you.

CHAIR CAREY: There's limited potential that we'd run into a crunch. Because as it flows, the money will come back in and replenish it. It seems like a remarkably good way to use that $3 million and get things going.

Matt, I think we're ready for you now.

MR. JACOBS: Let's make a motion.

CHAIR CAREY: All right, a motion.

MR. GUNNING: I'll second.

CHAIR CAREY: And a second.

All in favor?

I'm sorry, that's the old -- that's like back home.

Roll call.

Am I anxious to get out of here? No.

MS. OJIMA: Thank you.

Ms. Falk?

MR. FALK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Jacobs?

MR. JACOBS: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Mr. Boyken?

MR. BOYKEN: Aye.

MS. OJIMA: Ms. Patterson?

MS. PATTERSON: Aye.

MS. OJIMA: Mr. Smith?

MR. SMITH: Aye.

MS. OJIMA: Ms. Whittall-Scherfee?

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 13-08 has been approved.

CHAIR CAREY: Thank you.

And the next action is 13-09, establishing parameters for the broader lending products.

MS. PATTERSON: I move -- what is it, 13-09?

CHAIR CAREY: Great, thank you.

We have a motion.

MR. SMITH: Second.

CHAIR CAREY: And a second.

MS. FALK: I have a question.

CHAIR CAREY: Questions?

MS. FALK: Can we amend the motion to add the home-buyer -- the warranty program? So, as amended?

CHAIR CAREY: Yes.

MS. PATTERSON: As amended. I move, as amended, to take into consideration the warranty.

CHAIR CAREY: Yes.

MR. SMITH: Second.

MS. FALK: Does it have to be officially in the record that we're amending it?

CHAIR CAREY: Thank you.

Okay, it's been moved, seconded, amended, and that was agreed to.

With that, roll call.

MS. OJIMA: Thank you.

Ms. Falk?

MR. FALK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Jacobs?

MR. JACOBS: Aye.

MS. OJIMA: Ms. Chavis?

MS. CHAVIS: Aye.

MS. OJIMA: Mr. Boyken?

MR. BOYKEN: Aye.

MS. OJIMA: Ms. Patterson?

MS. PATTERSON: Oh, yes. Aye.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Ms. Whittall-Scherfee?

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 13-09 has been approved.

CHAIR CAREY: Thank you.

That was some great discussion.

MS. PATTERSON: Can I make a comment?

CHAIR CAREY: Yes.

MS. PATTERSON: I want to thank staff.

I really appreciate the hard work that you guys put into this. It was very thoughtful. You answered our questions. And as a Board member, I really do appreciate the work that you put into this.

MR. OKIKAWA: Thank you.

MR. GEIBEL: Thank you.

MS. ANGST: Thank you.

MR. OKIKAWA: Really, there are a lot of other people in the single-family that really worked hard.

MS. PATTERSON: All of you. Everybody.

MR. OKIKAWA: But thank you very much.

--oOo--

Item 13. Reports

CHAIR CAREY: Okay, the last piece on the agenda is reports.

Are there any particular items that Board Members have any questions about, which you feel deserve attention? Or are we --

MS. CAPPIO: Not from -- I mean, it's just informational.

I know *Keep Your Home California* --

MR. HSU: Do you want --

MS. CAPPIO: Just one minute, because it's…

MR. HSU: Yes.

I know I said earlier that I wished the Board could hear less from me. But that doesn't mean I don't enjoy presenting the report because I'm trying to get a second job here in front of the Board as the Padawan training on KYC.

Three things to note here: One is that I think at the last board meeting, I mentioned that there is a ramp-up in marketing efforts. And so in some of these charts that we present to the Board, you'll notice that there is a slight uptick on the abandonment rate. And it's because of the added marketing reach has resulted in more calls that have come in, in which folks do not qualify. So that's the first thing to note.

The second thing to note is that this chart here, you can really see the ramp-up in the PRP program, the Principal Reduction Program, and the changes to the Principal Reduction Program in the last two quarters of last year, to include this recast idea has really shown some tremendous acceleration in that program. You can see the uptick here.

And the last thing to note is that this chart here on the very right-hand side shows the production in the first quarter. And you can see that we have gotten, to date, about $353 million actually out of the door. And for the quarter, we have done about $50 million. And the amount, that $443 million, is the amount of reservations that we have in the pipeline.

Another way to see this ramp-up in the Principal Reduction Program dollars is, if you look -- what this chart is, is that this chart is a breakdown.

I mentioned earlier we had gotten $353 million out. On the top of this chart here is a breakdown of that $353 million.

And below here is a breakdown of the pipeline that we have right now, as we speak.

Well, you see on the very left-hand side here, these are the dollars that are reserved for the principal reduction dollars -- Principal Reduction Program. And you can just see the size of that program has really picked up. And that's the sort of switch that we're expecting.

I think a good part of last year, if you go back to the chart on UMA, you can see that our collaboration with EDD has resulted in big upticks in UMA for a good part of last year. And you can see that that handover between UMA the last year to the Principal Reduction Program, that sort of picked up in the second half of last year.

MS. PATTERSON: Are one of the initial threshold requirements to be eligible for the program is that you actually be in default, is that true?

MR. HSU: No, that's not true.

Actually, the *Hardest Hit* program is actually a foreclosure-prevention program. So if you're in default, you do not qualify.

MS. PATTERSON: Okay.

MR. HSU: I'm sorry. You know what? Let me rephrase that. Let me rephrase that. Sorry.

Well, if you're in foreclosure --

MS. PATTERSON: Okay, so let me reask the question.

Not in default, but that you've not had any late payments.

I've literally heard from people that said, "I've called, I've tried to get the initial threshold met, I haven't paid my water bill, I haven't paid my trash bill, I haven't paid my homeowner's association because I've been putting everything towards my mortgage that is now upside-down, and I can't even meet the eligible threshold because they tell me I have never been late in making a mortgage payment."

MR. HSU: I'm sorry, earlier, I was mixing "default" and "foreclosure."

You need to have a hardship. I don't think you need to be in default, as in you're not paying.

MS. PATTERSON: Right.

MR. HSU: But you need to have a hardship. So then…

MR. JAMES: That's right. Several years ago, when all of these -- and this isn't the *Keep your Home* program -- but several years ago, when the servicers were looking at this, they were thinking hardship equated with failing to make a payment --

MS. PATTERSON: To a late payment.

MR. JAMES: -- failing to make a payment.

MS. PATTERSON: Well, they're still making that.

MR. JAMES: Well, I know.

MS. PATTERSON: Okay, so…

MR. JAMES: But under our program, hardship does not require that you have failed to make a payment. You have to show hardship, but it doesn't necessarily mean that you've failed to make a payment.

You've got to be able to show that you --

MS. PATTERSON: Well, let me tell you what they're asking when you call, because I've had three phone calls from homeowners, and that's because we've probably had some money in it as well where -- and I've heard back from some of our portfolio management people, that people, when they call, and they're asked the initial questions to see if you meet eligibility so that you can go to the next piece, one of the questions they're asking is, have you ever made a late payment? And if you've never made a late payment -- you could be upside-down on your house, you could have a hardship, but -- and so I don't know if they're using that as one of the threshold questions to show hardship; but that kind of concerns me, that --

MS. CAPPIO: We'll check that out.

MS. PATTERSON: Okay.

MS. CAPPIO: But one of the programs is a mortgage reinstatement program. So, again, that implies that you've been late.

So perhaps that's just triage in order to figure out what program you'd become eligible for.

But we'll check that out. We'll alert Di.

MR. HSU: Did you mean that someone is calling *Keep Your Home California*?

MS. PATTERSON: Yes, yes.

MR. HSU: You don't mean their servicer?

MS. PATTERSON: They're not calling their servicer. They called *Keep Your Home California,* and they --

MS. CAPPIO: Yes, we'll check it out.

MS. PATTERSON: Yes.

MR. HSU: Okay, we can check on that. Because I agree with both Victor and Claudia, you need to demonstrate a hardship that could include a loss of income.

MS. PATTERSON: Right.

MR. HSU: So if you're a two-working-individuals household, if one person loses their job, that's considered as a hardship. But it's not my understanding that you need to actually be late on your payment.

You don't need to be delinquent.

MS. PATTERSON: Okay.

MS. CAPPIO: Thank you.

CHAIR CAREY: Any other questions?

(No response)

CHAIR CAREY: Okay.

Thank you, Tim.

MR. HSU: You're welcome.

--oOo--

Item 15. Public Testimony

CHAIR CAREY: This is an opportunity for anybody who would like to address the Board on any matter that is not on the agenda.

If there is anybody?

(No response)

CHAIR CAREY:

--oOo--

Item 16. Adjournment

CHAIR CAREY: Seeing none, we are adjourned.

(The gavel sounded.)

(The meeting of the Board of Directors concluded at 12:13 p.m.)

--oOo--

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 27th day of May 2013

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

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