STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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

Tuesday, November 12, 2013
10:02 a.m. to 11:36 a.m.

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Minutes approved by the Board of Directors at its meeting held:
JANUARY 14, 2014

Attest:

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

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A P P E A R A N C E S

Board of Directors Present:

MICHAEL A. GUNNING
(Acting Board Chair)
Vice President
Personal Insurance Federation of California

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing and Redevelopment Agency

ANNA CABALLERO
Secretary
Business, Consumer Services and Housing Agency
State of California

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

MATTHEW JACOBS
Co-Managing Partner
Bulldog Partners, LLC

JACK SHINE
Chairman
American Beauty Development Co.

RUBEN A. SMITH
Audit Committee Chairman
Partner
AlvaradoSmith

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

CalHFA Staff Present:

SHERYL ANGST
Housing Finance Specialist

STEPHEN BECKMAN
Multifamily Finance Officer

KENNETH H. GIEBEL
Director of Marketing

NANETTE R. GUEVARA
Housing Finance Officer

TIMOTHY HSU
Director of Financing

VICTOR J. JAMES
General Counsel

JAMES MORGAN
Chief of Multifamily Programs

JOJO OJIMA
Office of the General Counsel

RICK OKIKAWA
Programs Administrator

RUTH VAKILI
Multifamily Loan Officer

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Public Testimony:

DANIELLE CURLS BENNETT
President
Alliance Property Group Inc.

VICTORIA JOHNSON
Senior Development Manager
Housing Authority of the County of Santa Clara

ANNABELLA MAZARIEGOS
Occupy Los Angeles –
Occupy Fights Foreclosures

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BE IT REMEMBERED that on Tuesday, November 12, 2013, commencing at the hour of 10:02 a.m., at the Burbank Airport Marriott Hotel & Convention Center, 2500 Hollywood Way, Burbank Room, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRMAN GUNNING: All right. Let's convene the meeting of the Board.

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Item 1. Roll Call.

ACTING CHAIRMAN GUNNING: JoJo, roll call.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Here.

MS. OJIMA: Ms. Whitall-Scherfee for Mr. Deems.

MS. WHITALL-SCHERFEE: Here.

MS. OJIMA: Ms. Falk.

(No audible response.)

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Here.

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

MS. CARROLL: Here.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Smith.

(No audible response.)

MS. CAPPIO: He is here.

MS. OJIMA: He is here.

Mr. Alex.

(No audible response.)

MS. OJIMA: Mr. Cohen.

(No audible response.)

MS. OJIMA: Ms. Cappio.

MS. CAPPIO: Here.

MS. OJIMA: Mr. Gunning.

ACTING CHAIRMAN GUNNING: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRMAN GUNNING: Awesome, thank you, JoJo.

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Item 2. Approval of the minutes of the April 23, 2013 Board of Directors Special meeting.

ACTING CHAIRMAN GUNNING: Let's move to the approval of the minutes for April 23rd.

MR. JACOBS: I'll so move.

ACTING CHAIRMAN GUNNING: We have a motion. Do we have a second?

MR. SHINE: Second.

ACTING CHAIRMAN GUNNING: Thank you, Jack.

MS. OJIMA: Mr. Shine.

ACTING CHAIRMAN GUNNING: Here's Mr. Smith.

MS. OJIMA: Here's Mr. Smith, thank you.

ACTING CHAIRMAN GUNNING: Motion and second. JoJo, let's take a roll call.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: I'm sorry, I --

MS. OJIMA: Approval of the minutes.

MS. CABALLERO: Approval of the minutes, aye.

MS. OJIMA: Thank you.

MS. CABALLERO: Not a good way to start off.

MS. OJIMA: Yes. Thank you, Ms. Caballero.

Ms. Whitall-Scherfee.

MS. WHITALL-SCHERFEE: Approve.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Abstain.

MS. OJIMA: Thank you.

Mr. Smith.

MR. SMITH: I'm abstaining as well.

MS. OJIMA: Thank you.

Mr. Gunning.

ACTING CHAIRMAN GUNNING: Yes.

MS. OJIMA: We have a -- it has passed.

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Item 2. Approval of the minutes of the September 12, 2013 Board of Directors Meeting.

ACTING CHAIRMAN GUNNING: Good. Now, we had two sets of minutes here, JoJo, for September and April.

MS. OJIMA: Yes.

ACTING CHAIRMAN GUNNING: So how about if we do the September ones now, since I was referring to the April ones. Is there a motion to approve the September minutes?

MS. PATTERSON: So moved.

ACTING CHAIRMAN GUNNING: Moved by Ms. Boatman.

MR. JACOBS: Second.

ACTING CHAIRMAN GUNNING: Second.

All right. One more time.
MS. OJIMA: First was who?
ACTING CHAIRMAN GUNNING: Tia.
MS. OJIMA: Tia, thank you.
And the second was?
MR. JACOBS: Me.
MS. OJIMA: Mr. Jacobs, thank you.
Ms. Caballero.
MS. CABALLERO: Aye.
MS. OJIMA: Ms. Whitall-Scherfee.
MS. WHITALL-SCHERFEE: Aye.
MS. OJIMA: Mr. Hunter.
MR. HUNTER: Aye.
MS. OJIMA: Mr. Jacobs.
MR. JACOBS: Aye.
MS. OJIMA: Ms. Carroll.
MS. CARROLL: Aye.
MS. OJIMA: Ms. Patterson.
MS. PATTERSON: Yes.
MS. OJIMA: Mr. Shine.
MR. SHINE: Aye.
MS. OJIMA: Thank you.
Mr. Smith.
MR. SMITH: I'm abstaining.
MS. OJIMA: Thank you.

Mr. Gunning.

ACTING CHAIRMAN GUNNING: Yes.

MS. OJIMA: Thank you. The minutes have been approved for September.

ACTING CHAIRMAN GUNNING: Okay. We got that business out of the way.

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Item 3. Chairman/Executive Director comments.

ACTING CHAIRMAN GUNNING: Let's move to item No. 3, the chairman and executive director report, which I will quickly toss your way.

MS. CAPPIO: Okay. Good morning. Good to be here. It's a lucky day today, 11/12/13, so I'm going to make sure that Tim calls both Moody's and Standard & Poors today, see how they're doing.

We have -- the first order of business is we do have some new state law changes that will go into effect in January, and we will have two new board members. One is the executive director of the CalVets agency, and the other will be an additional Governor-appointed member who has financial expertise in the bond and finance markets. So we'll be looking forward to that.

In addition -- and these are just highlights of Di's legislative report in your packets. We're very excited to be collaborating with both HCD and CalVets on the proposed moving of 600 thousand -- excuse me, million dollars from the single-family bond program to the multiple-family bond program for CalVets, which will be going to the voters in June of '14.

On to the affordable housing cost study, I know I've described this before. It is a collaborative effort between CalHFA, HCD, CDLAC and TCAC, going through the key components of costs in a statistical survey and how we can do better. I would have liked to have the findings before you today, but it's -- the final tweaks are occurring, and I should -- I will give you a detailed briefing in January.

The next steps on this study is to publish it in draft, put it before boards and other citizen and advocate groups, receive comments and then publish a final study sometime likely in the spring. I think what we can really think through as you're going through the results early next year is how we can go to best practices, what we've found in the study and how that will lead us to more efficient productive -- production of accordable housing.

On to the status of the reorganization with HCD. As I noted to you a couple of months back, the Governor's Office asked us to pause our work in -- in terms of moving forward until the Governor's reorganization plan legislation for this session was approved by the legislature, and it has been signed by the Governor. So recently we re-engaged the Governor's Office and will be to you with a final proposal sometime early next year on how our collaboration and alignment with HCD will work.

We recently completed the third of three convenings with the federal government on a homelessness policy academy. It was very successful. We had a broad range of legislative staff, service providers, housing groups, regional, state and local officials and even our sister agencies, the Department of Healthcare Services, CalVets, Department of Corrections, to look at how we can further the goals of ending chronic homelessness in the state.

We had good support and technical assistance from our federal partners, and we came to the conclusion of wanting to move to action on five major strategies. First, we thought that to expand the use of mainstream resources through the Affordable Health Care Act, Medi-Cal and Medicaid for the chronic homelessness would be a good set of tools so that those folks could actually get in the stream of resources to get treatment and stabilize their lives.

Secondly, while we have supportive housing throughout the state, permanent supportive housing, it has not been well used by the chronic homelessness population. As you may know, this population is very hard to get to, to get access to, and then to get into the resources they need. So finding ways to increase the use of permanent supportive housing to serve the chronic homeless population is important.

Third, to look at how we need to move forward with the design of new permanent supportive housing for the state, both to serve the chronic homeless population and just in general, particularly using the lessons of what we've found from the Mental Health Services Act in the past couple of years. We've had -- CalHFA has produced a lot of this housing and to see what's worked well and what hasn't worked well as we move forward is a really good strategy.

Fourth, to support the re-tooling of local crisis response systems. As chronic homelessness use the local resources, they sometimes get into really bad cycles of emergency room visits, encounters with public safety officials. And to make sure that there's a framework in place to look at that more proactively on the local level is important and then move those people to the resources that they need for permanent health and stabilization.

And finally, to increase state leadership on this matter, it's important as we move forward that we have the right frameworks and connections established with sister agencies and the right people in the room as these discussions continue.

I feel, very importantly, that we did make a big step in that direction. We had the right people in the room. And for me, it has always been a question about -- the major question being what is the best way for the State to intervene? And I think we got very far during the last nine months in our work with the policy academy.

And that ends my comments, formal comments.

I'd now like to make sure that you all know that this is Ruben Smith's last meeting with us, which I'm very sad about. He has done a journeyman's work through about as chaotic a time as you can imagine. And his steadiness and expertise, particularly in financial and audit matters, has been very appreciated by me and the Board.

And I want to just thank you very much, Ruben, a lot.

MR. SMITH: Thank you.

ACTING CHAIRMAN GUNNING: So we have a resolution, of course. That's our wont.

The resolution to Ruben A. Smith: Whereas Ruben A. Smith has faithfully been on the Board of CalHFA since 2008, helping to create finance and progressive housing solutions so more Californians have a place to call home;

Whereas during his tenure CalHFA created and implemented the Keep Your Home California Program, which has helped raise -- helped more than 30,000 California families avoid foreclosure. During his term, CalHFA partnered with the U.S. Department of Treasury to finance $380 million for multiple-family developments. CalHFA introduced innovative first mortgage and downpayment assistance programs to help first-time homebuyers.

Mr. Smith continues to serve the people of California as a member of several other special boards, and his contributions to the Hispanic and small business communities of California cannot be overstated.

Therefore, I totally thank you and wish you wild success in your future endeavors, Ruben.

MR. SMITH: Thank you. It's been an honor to be on this Board.

(Applause.)

ACTING CHAIRMAN GUNNING: Awesome. I echo those comments. Ruben, it's been great having you on the

Audit Committee, and I'm sorry to see you go.

MS. CAPPIO: Here's your clock.

ACTING CHAIRMAN GUNNING: More stuff.

MR. SMITH: I get a clock too?

ACTING CHAIRMAN GUNNING: You get a clock.

MS. OJIMA: The good stuff.

MR. SMITH: All right. Thank you.

ACTING CHAIRMAN GUNNING: Any comments on the executive director's report from the Board or from the public, public comments?

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Item 4. Report of the Audit Committee Chairman.

ACTING CHAIRMAN GUNNING: Seeing none, Ruben, we're going to move right -- we're not going to let you bask in any of this. We'll move right to the Audit Committee report.

MR. SMITH: Great. Well, I can you --

ACTING CHAIRMAN GUNNING: You have to do some work now.

MR. SMITH: No, it's been great being on the Audit Committee. And thanks to the staff for just a great job and our new auditors for -- they're not so new anymore. It seems like just this last month we were doing this. But it is truly awkward when you're told that you have an unqualified audit, it's unexceptional, and now it's unmodified --

ACTING CHAIRMAN GUNNING: There you go.

MR. SMITH: -- which means that it's great. So, I think it's a -- congratulations again to the staff. It's not easy to get auditors to go through and not find anything to talk about, but that's what happened in this case. And so, again, congratulations to the staff for doing a great job and to the auditors for giving us such an unqualified decision.

So I don't know if there are any questions about our audit, but that truly is the case. It's like getting an A-plus and being told you're unqualified, but that's a good thing.

ACTING CHAIRMAN GUNNING: It's a good thing.

Any comments from the public?

Seeing none, again, Ruben, thanks for your effort, and we're going to miss you, buddy.

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Item 5-A. Discussion, recommendation and possible action regarding final loan commitment for the following projects: 13-040-R/BN, Villa San Pedro (Resolution 13-15)

ACTING CHAIRMAN GUNNING: Moving over to item No. 5, let's bring up Mr. Morgan and his team, talk about the multi-family.

MR. MORGAN: Good morning.

We thought before we get -- we delve into the frivolity of our three projects presented for you today and the loan officers that are here to present them, just give you an overview of how -- since it's been a year since we brought projects to you, we thought we'd give you an overview of how we got here.

So this has been a culmination of three to four months' worth of -- worth of work from basically a loan proposal to -- to this Board meeting. We started out in early August with these three deals, looking at preliminary numbers and financial amounts, looking at EOT and site control and rent restrictions and operating expenses and debt service coverage, making those preliminary -- preliminary reviews of the proposed projects.

Late August, we took -- we took that and we went out to visit the site, actually look at the site, because two of these three deals are new deals that aren't on -- that are not in our portfolio. So we took -- we made a site visit to -- to evaluate the condition of the project, the acceptability of that site and that project and to hold a concept meeting to basically determine scope of work, what the operating budgets are, locality requirements, timing. We had our

P and A consultant there at the site at that time looking at the same scope of work that we looked at.

And then that threw us into basically early September when we looked at our CDLAC applications and CalHFA loan applications. We got an updated financial analysis based on the three or four weeks of previous work that we did with the site visit and developing a construction budget.

At this time the third-party reports were initiated. Like I mentioned, the P and A, but also market study, appraisal, Phase I environmental, soils, ALTA survey, seismic review and preliminary title report during that time. That process basically took two to four weeks. At that same time in mid-September, we were doing our initial application submittal to CDLAC for an allocation award here for tomorrow.

During this whole process, we're also incorporating, taking into consideration, other factors such as HUD. We're using our HUD risk share insurance component for these -- for all our deals going forward. So we're also -- we're also tying in the timing of the CalHFA project with HUD's timing for approval. We're also looking at, as I mentioned, for CDLAC. We're looking at TCAC and then also other localities, other state agencies such as HCD. One of these projects has an HCD subsidy, which we're timing in and working and collaborating with HCD staff to make sure that subsidy is remaining in place and recasting in other localities.

And so at the end of the -- at this -- at the end of this process here, we had our final senior loan committee meeting before you here, two weeks ago, with the final product. And the product that's in front of you today, in addition to all the underwriting and due diligence we have, has a unique subsidy component tied to it as far as how we structured our deal financially. And for that, I was going to have Tim Hsu explain to you what we did with regards to our subsidy component.

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

After the March Board meeting, after the meeting, Claudia told me that I had used up already my slide quota for the entire year. So in spite of her gentle chiding, I went on to present many slides to the Board. And Jack approached me this morning about my slides, which -- but I'm here today actually without any colorful charts to talk to you about the subsidies that these three projects are receiving.

But first I thought that if you would allow me to step back a little bit and make a connection between this conversation and the business plan that the Board adopted back in May. In the business plan, we committed to formulating a multi-year plan to identify the use of three potential subsidy funds that are under CalHFA's administration.

We're in the middle of formulating that plan, but these three projects here are helping us -- it's helping us think through the issues that are involved, so to formulate this plan.

All three of these projects have received three tiers of approval to receive subsidy from RHCP. So there are three potential subsidy funds that's under CalHFA's administration. The first one is through the repayment, the RHCP or Rental Housing Construction Program. And the second pot is through the accumulation of earned surplus funds. And the third is through the accumulation of past savings. So all three of these -- all three of these projects have gone through three tiers of approval: Statutory approval, policy approval and also business approval.

From a financing point of view, the subsidies are really essential during the acq rehab period, a short-term period, because CalHFA's cost of borrowing in the short term is higher than somebody -- a depository, the financial institutions out there. And the subsidies also result in higher debt service coverage ratios upon the projects' conversion to primary financings. So in that way it is also really helpful.

It's our aspiration to bring -- to share to the Board -- to share with the Board over the next six to nine months this plan that we are working on right now. And you might think of these three projects are examples of what this plan can accomplish.

MR. MORGAN: Perfect.

So with that, we'll start our presentation with our very first project, Villa San Pedro. We have nice pictures. In addition to our glamor shots and the bios that you have, we do have some nice photos here too of the projects.

MS. VAKILI: Not too many.

MR. MORGAN: Go ahead, Ruth.

MS. VAKILI: Good morning. It's good to be back and presenting this very exciting project, Villa San Pedro.

And this is an aerial view of the property, and it's centrally located about eight miles from downtown San Jose. We have the interstate -- or Highway 101. And I don't have a pointer, but -- oh, you do.

MR. MORGAN: I do.

MS. VAKILI: 101. Jim knows where it is.

And then down below is the Monterey Highway, 82, which is a direct shot to downtown San Jose. The project is excellently located in the Blossom Valley area, close to major employment, schools, shopping, the whole nine yards.

It's also in an area that has very high vacancy. Affordability is low -- I'm sorry, I'm going to back up.

It does not have very high vacancy. That wouldn't be a good thing. It has about a 95 to a hundred percent occupancy rate. And this project in particular has been leased up successfully. It has 16 units currently vacant so that the rehab can take place; people can move from one phase to the next.

This project also has 88 Section 8 vouchers. And the Section 8 rents have already been established, as you can see in --

MR. MORGAN: Wait, let me get there. You're way ahead of yourself. We'll go right to the rents. There we go.

MS. VAKILI: We're going to mix up the pictures for you.

Section 8 rents, you can see, are the market-rate rents. And the developer is in the process of getting final approval with HUD for the rents. And you can see that market-rate Section 8 rents are very strong in this area relative also to the HCD rents, which are at 50s and 60s, and TCAC rents at 50s and 60s. The project is extremely affordable compared to the market.

Now we can go back to the other pretty pictures. Good thing Jim's doing this.

Okay. Here we have the exterior view currently of the property and the typical kitchen.

The exterior is -- the entire property is going to have extensive rehab. Exterior is going to have new roofs, new siding, seismic upgrades. We're going to have just site improvements, relandscaping, new tot lots. The paving, new sidewalks. The exteriors are going to have also trellises for shade, new decks. It's a comprehensive rehab, both exterior and interior.

The interiors are going to -- the four-bedroom units are going to be remodeled to have two baths instead of one and a half.

The townhouse style unit, where you can see a picture of right now, the stairway access will be changed. Currently you walk right in the door, and the stairs are right in front of you. It's not as efficient of a living situation, so the configuration in the townhouse style threes and fours are going to change to bring more livable space.

The community building is going to be rehabbed extensively for more office and service space and more efficient meeting areas for the tenants. And as you can see, the difference that's contemplated in the project.

This is an exterior view of the renovated building. You can see the trellises and the patio structures. It's going to architecturally be very pleasing as well as, more importantly, the property is going to be extremely livable.

Right now you have two-, threes and four-bedroom units, which is great for large families, but the property needed the upgrades in order to make it a much more functional situation for the tenant. So the developer is putting in 160,000 unit -- per unit in rehab, which also, by the way, increases the energy efficiency.

So overall, it will take about 12 months to rehab the property, during which time tenants will be relocated off-site in phases of five for about two to three months at a time. All the housing for the replacement, temporary replacement, has been found. Tenants have been noticed, and the move-outs will begin at the very end of December. So Merry Christmas to the tenants. They'll be moving back into a beautiful new project.

With -- one of the updates I wanted to mention is that in the report we had noted that the environmental review was under way. That subsequently has been approved.

And another thing to note, that being that this is a Section 8 property, you will not see a capitalized transition reserve in the budget. But the transition reserve is to be funded below the line out of the first four years of cash flow. This has been a negotiation that HCD has agreed to with the developer. After the first four years of capitalizing transition reserve, the cash for distribution goes back to what is already contemplated in the loan documents.

So this is a -- it's kind of an elegant accommodation to enable the transition reserve, to make the property less risky in case the Section 8 goes away for some reason, and it enables us to not have to capitalize that kind of a large reserve up-front.

So there were a couple of interesting elements and -- and the negotiations with HCD have resulted in this kind of a nice resolution to a capitalized reserve that would normally cost a lot of money.

And with that, I will take any questions that the Board may have.

MR. JACOBS: Slight format question. Just going forward, if we would on the permanent mortgage list both the term of repayment and the term of amortization, even though they might both be 30 years.

MR. MORGAN: Okay.

MR. JACOBS: Okay.

MR. MORGAN: Noted.

ACTING CHAIRMAN GUNNING: Yes.

MS. CABALLERO: So it's probably important as this is the first one, the first project, that I'm looking at. And what I had a hard time figuring out without diagramming it -- well, first of all is the $160,000 per unit gave me heartburn. I'm trying to figure out why it's so high in comparison to the others in terms of rehab.

But more importantly, I was trying to figure out what's getting paid and what are the new loans that are being -- in other words, what's the transition from where we are now to where we will be at the end of the project? And I had a real hard time going through that, as I said, without diagramming it exactly.

MS. VAKILI: The -- what's happening in the sale transaction and the financing transaction is that the property is selling from Villa San Pedro HDC, Inc., to a new borrowing entity, Bendorf Drive, LP. And the sale price is 16 million. That, when we close our financing transaction, the sale also closes. The existing financing with HCD rolls into an extended term for 55 years with the existing principal plus interest of five million, two. Five million, 256.

In addition, the housing authority is providing the Move to Work loan of 800,000, which is actually a repayment of the existing HUD financing that was on the property. That loan was retired about a year ago.

So there is extending existing financing as well as new financing, and part of the new financing also is tax credits and the seller carryback. So in addition to the bond that we're closing, all of these other elements are coming in at the construction close and will also be available at the permanent for the 55-year term.

MS. CABALLERO: So in terms of the construction money that's coming in, that will continue past the -- in other words, once the final financing is available?

MS. VAKILI: Yes. The construction loan of 20 million, 215 then pays down to 11 million, 710. The pay-down comes from the largest balance of the LP equity coming in at the conversion. Conversion is at 95 percent occupancy, and the investor required a 1.20 debt coverage ratio. So based on what we know to be -- the property is already, you know, 90 percent occupied, tenants are moving back in, they'll hit the 95 percent well ahead of 18 months, which will enable us to close and convert to permanent.

MS. CABALLERO: Okay. Very good. Thank you very much. I appreciate that --

MS. VAKILI: Sure.

MS. CABALLERO: -- that rundown.

MS. VAKILI: Yes.

MS. PATTERSON: I'm trying to understand the housing authority's role besides providing some financing, because you have them listed in the staff report as being the developer.

MS. VAKILI: Yes.

MS. PATTERSON: So is the housing authority -- is the Villa San Pedro HDC made up of the housing authority and --

MS. VAKILI: Yes, it is.

MS. PATTERSON: Okay. So what -- who are the entities that belong to the Villa San Pedro HDC is what I'm asking. It's the housing authority and who else? Or is it the Housing Authority Development Corporation?

MS. VAKILI: I believe it is just the housing authority corporation. However, if I could ask our project manager, Victoria Johnson, to come up and give you a better explanation of that, that would be great.

MS. JOHNSON: Good morning. Thank you.

The housing authority operates several nonprofit affiliated entities, one of which is Villa San Pedro HDC.

MS. PATTERSON: Okay.

MS. JOHNSON: And an interesting story behind this property is that it was originally developed with a HUD 221(d)(3) loan in 1972. And when it was run to the ground, HUD approached the housing authority in the 1990s and asked the housing authority to take control of the property.

MS. PATTERSON: Okay.

MS. JOHNSON: And since that time it has not been significantly renovated, so to address the question of why are -- why is the cost per unit so much, because it's really rebuilding in and out a property that's already 42 years old.

MS. PATTERSON: So this is in no way conventional public housing. This has been gone through a disposition process --

MS. JOHNSON: No, it --

MS. PATTERSON: -- with HUD or --

MS. JOHNSON: -- was never public housing.

MS. PATTERSON: Okay.

MS. JOHNSON: It was developed under the HUD 221 program as affordable rent restricted housing.

MS. PATTERSON: And did that loan get completely paid off?

MS. JOHNSON: That loan was paid at the natural -- according to the natural amortization schedule of 40 years.

MS. PATTERSON: Okay.

MS. JOHNSON: So in 2012, the HUD loan was paid off. And in order to finally -- the final payment, that was the $800,000 loan that the housing authority made to repay the last 800,000 to HUD. So other than the HCD's debt and a small City of San Jose loan that was taken out about ten years ago, 15 years ago, to replace the roof, there's no other debt on the property. This will be the new and only debt and -- with HCD and the housing authority loans as the soft loans.

MS. PATTERSON: Is the housing authority getting a developer fee?

MS. JOHNSON: The housing authority is the developer, and they will earn a developer fee.

MS. PATTERSON: Okay.

MS. JOHNSON: And so the housing authority is the sponsor and the developer, serves as the sponsor and the developer.

MS. PATTERSON: Did you break out what their developer fee was?

MS. JOHNSON: The developer fee is the full amount allowed under the state regulations, which is $2.5 million. And generally speaking, all of the fees that are earned by the housing authority are then used to finance subsequent projects.

MR. HUNTER: Could you tell me again about that transition operating reserve? Part of that is capitalized, and part of it is funded out of cash flow; is that correct?

MS. VAKILI: This actually, all of it, is funded out of net cash flow below the line. For the first four years a hundred percent of the cash flow goes into this transition operating reserve, to total a million, 105.

MR. HUNTER: Okay. I got confused because I only saw a $50,000 contribution, but you're saying that then the net will go --

MS. VAKILI: Yes. There is a -- we, as a placeholder, put in the 50,000 above the line in case negotiations changed in terms of funding the TOR.

MR. HUNTER: Okay.

MS. VAKILI: Transition operation reserve, I'm sorry.

MS. PATTERSON: On the HAP payment, project based Section 8, is it -- do you have any concern that any of those tenants would move and take the voucher with them, or as part of the HAP contract does it completely stay with the project?

MS. JOHNSON: Because the contract is a direct project based assistance contract rather than project based voucher, it is not portable.

MS. PATTERSON: Okay. Very good.

MR. JACOBS: Is there a cost breakdown, just how much is structural, how much is seismic, how much is environmental? Or do -- off the top of your head do you have a sense?

MS. JOHNSON: You mean within the hard costs?

MR. JACOBS: Within the hard costs.

MS. JOHNSON: So the seismic upgrade is wholly voluntary. It is not required on the basis of the structural engineering report. And the 16 -- $160,000 per unit is paid to the contractor. The hard costs are those complete replacement of systems. Is your question how much --

MR. JACOBS: Just the breakdown of the hard costs.

MS. VAKILI: On page 4, it gives a somewhat general overview, but what we attempted to do is to break out exteriors from interiors and also list the major elements of what lies in that, in those costs. Also, we separated out the work on the common building and the plumbing, mechanical and electrical. So that gives you the larger elements, the expense. For example, building exteriors are the decks, patios, structural, roofs, windows.

MR. MORGAN: We don't have that seismic update.

MR. JACOBS: No, I'm just accustomed to a division by --

MR. MORGAN: Yeah, I know that we mentioned that, but we didn't want to be so overflowing of certain line items so we thought on this particular one we would consolidate it.

MR. JACOBS: Costs divisions are generally definitely a plus.

MR. MORGAN: Thank you.

ACTING CHAIRMAN GUNNING: Any more questions from Board members?

MS. CABALLERO: I'd like to make a comment --

ACTING CHAIRMAN GUNNING: Sure, go ahead.

MS. CABALLERO: -- because I was the one that brought up the 160,000. I really appreciate the pictures because it gives you an idea of what it looks like now and then what it's going to look like, and I think that's important, from my perspective.

And I appreciate the information in regards to the original purchase and development from the 70s and that there really hasn't been anything other than a roof replacement, and that's -- it will make a significant difference in the neighborhood and more importantly to the families that live there, so I really appreciate that information because makes it a lot easier to swallow so much being spent. Because you wonder what is this really going to go into? What are they -- what is it going to look like in the end that -- that would cost so much?

And I don't have a real good sense right now, without land costs, what is -- if this was razed, what would it take to rebuild it? And so that's why I was looking at the 160 and thinking, you know, if we just razed the whole thing and started all over, would we get a better product, a newer product, and something that could actually house more people, but I appreciate the information because it looks a lot better.

MS. JOHNSON: The primary challenge to demolition replacement is the fact that there are 84, 86 families living there now.

MS. CABALLERO: Yes, I understand completely. It becomes very expensive to relocate people for the period of time.

MR. JACOBS: Just one other question. It seems, just from looking at the photos, it's a fairly low density development there. There's a lot of surface area for parking. Is this loan -- would it be possible in the future to add units there without affecting the loan, just someday more density? Let's say a transit line comes in 15 years down the road.

MR. MORGAN: We can. With the structure that we have under HUD risk share, we just have to be careful about expanding the footprint because we have a qualifier saying "substantial rehab," and it's a very literal definition. So, yes, we could add a community room. We could add units. As long as we don't expand the footprint, we're okay, the building footprint.

MR. JACOBS: The building footprint.

MR. MORGAN: Yeah.

MR. JACOBS: Okay. Too bad, because I mean there's definitely land there, and some day that's going to be a transit corridor.

MS. JOHNSON: It's very low density.

MS. VAKILI: It is definitely. In fact, I think the high speed rail line goes down Monterey Highway, if I'm correct. I recall seeing an easement for the high speed rail line on Monterey Highway itself on property that we financed some years ago.

MR. JACOBS: Maybe there's some way we can, I don't know, legislatively or administratively change the loan documents and if -- if this becomes surplus parking some day, can units be added by the housing authority? It's worth considering.

MR. MORGAN: Absolutely.

MS. JOHNSON: We certainly always want to maximize density without --

MR. JACOBS: Exactly.

MS. JOHNSON: -- question, right, particularly in San Jose when there's such a scarcity of units available.

ACTING CHAIRMAN GUNNING: Excellent. Thank you, Ruth, Jim.

MS. VAKILI: Thank you.

MR. HUNTER: I move adoption of Resolution 13-15.

ACTING CHAIRMAN GUNNING: Is there a second?

MR. JACOBS: I'll second that.

ACTING CHAIRMAN GUNNING: Moved and seconded.

MS. OJIMA: Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Whitall-Scherfee.

MS. WHITALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Gunning.

ACTING CHAIRMAN GUNNING: Yes.

MS. OJIMA: Thank you. Resolution 13-15 has been approved.

ACTING CHAIRMAN GUNNING: Great, thank you.

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Item 5-B. Discussion, recommendation and possible action regarding final loan commitment for the following projects: 13-037-M, Mountain Breeze Villa. (Resolution 13-16)

ACTING CHAIRMAN GUNNING: You're up.

MR. MORGAN: All right. Now, for the second project, Nan Guevara is here to present to you Mountain Breeze Villa.

MS. GUEVARA: Good morning, Mr. Chairman and Board. Nan Guevara.

Mountain Breeze Villa is located in the city of

Highland in San Bernardino County. It is a market-rate project of 168 units that now will become 100-percent affordable, with a special needs component for the MHSA housing program. There will be 20 units for MHSA. We're quite excited that this conversion will also result that only ten of the existing residents will receive permanent relocation, and the majority of the existing market-rate residents will benefit with the rent reduction, because they do qualify to be able to stay in the affordable housing once we close this loan and rehabilitation is complete.

There on the map, on the location, to the north is Highway 210. To the south is Highway 10. On the west is 215, going towards L.A. And on the east is Highway 330. And this area is -- is called the southwest section of San Bernardino County.

Closer on, the property has nine main buildings and a clubhouse with a swimming pool, and there will be a new section south of the pool, right in the green area. There will be a new leasing office and supportive services space, office, that will be built to enhance the common space for our residents.

The main street is Baseline Street in the city of Highland.

The building was built in 1987, and it is currently in very shape. We will, with our rehabilitation, be able to do some exterior dressing up and landscaping, and the interiors will also be redone.

This is a typical kitchen and what they typically look like now. And I know our borrower is here, and they told me they're going to change those military barrack numbers to something a little bit better, more suitable for apartment designation.

The next -- there's -- as you can see, this is in very good shape.

And the rehabilitation will be about $20,500 per unit. And, Secretary Caballero, I just want to let you know that --

MR. MORGAN: There's a dichotomy there.

MS. CABALLERO: That's true.

MS. GUEVARA: The acquisition price is over $10 million. That closed for Halloween, I believe it was. And so we do -- our borrower now owns the property. And then our acquisition rehabilitation loan will take out Century Housing Corporation for the acquisition, so most of the costs for the total project is the acquisition, but we're quite happy to do this to increase our affordable housing stock by 168 units.

The rehabilitation will actually achieve about 18.46 percent energy savings. And the environmental review has been completed, and it was determined that because of the plans for the roof going on top of the existing shingles, we will not make any asbestos viable, so that was a good thing.

The -- I wanted to -- we didn't go to the rent slide.

MR. MORGAN: We can do that.

MS. GUEVARA: Sure.

So you can see the affordability. The black is the market rate. And we're going to have 50-percent AMI units and 60-percent AMI units. And the 30-percent rental restriction, those are for our MH -- 20 MHSA units. And the rent restriction really is -- has to be 30-percent AMI or lower, but the actual resident that we serve usually makes SSI, and they will only be paying 30 percent of their income towards rent, which is a little anomaly, a little special thing for MHSA. And that's actually equivalent to 22 percent of AMI for San Bernardino County.

The construction period actually will -- Danni, my borrower, just let me know that it looks like because of the physical needs assessment and all the studies that were completed, it probably -- even though I projected a 12-month rehabilitation period, it will probably only take six, and so that's quite exciting.

I don't know if there's anything else that you want to know or have any questions.

Yes, Ms. Boatman.

MS. PATTERSON: One's a comment, and the other one is a question. So the sales transaction in your first one gives you a per unit, but I don't see like a rehab cost broken out, but on this one you have the sales and then a rehab in the staff report.

MS. GUEVARA: Right. The rehabilitation per unit is about 20,500, and the acquisition, I believe, is like 50.

MS. PATTERSON: So if you -- because in the first one when you had the 160,000 per unit, was that just acquisition or acquisition and rehab?

MR. JACOBS: Just acquisition. And the rehab was --

MS. GUEVARA: I don't have --

MS. PATTERSON: So it's 200,000 -- $320,000.

MR. JACOBS: 400, basically. 404 on the first project.

MR. MORGAN: Yeah, if you look at that on the first one on the FA, the financial analysis, you'll see around 420 in total cost. That was in San Jose.

MS. PATTERSON: Okay.

MR. MORGAN: For this project -- for this project in Highland is --

MS. PATTERSON: And I understand the difference why because that one hadn't been rehabbed since 1973 and this one is a much more newer and better shape project, so I completely get that.

And I've said this in other past meetings, but when you do come in and you do a rehabilitation, even on units that are fairly good shape and you put in some subsidy, that you're making sure that you're getting at least 15 years of useful life on what you're putting in, and so we've done that.

MR. MORGAN: Yes.

MS. GUEVARA: Absolutely.

MS. PATTERSON: Okay.

MR. MORGAN: There's been -- the physical needs assessment also has a reserve study to it, so we're addressing all life and safety issues upfront, first and foremost, and then also looking past the 20, 30 year -- you know, looking past a 20-year reserve for --

MS. PATTERSON: And we did that on the first one, too?

MR. MORGAN: Absolutely.

MS. PATTERSON: Okay.

MR. MORGAN: Absolutely. And that one, yeah, the first one was such extensive rehab.

MS. GUEVARA: I did require a capitalized replacement reserve in an amount of 84,000, and then an annual replacement reserve payment from cash flow and as an expense will be at 84,000 a year, $500 per unit.

MS. PATTERSON: Okay.

MS. GUEVARA: So we did take into account our physical needs assessment and needs over time. And definitely the rehabilitation that we are doing now will make sure that it will get us through 15, probably 20, years. I'm -- we're not -- I'm not coming back in ten years.

MS. PATTERSON: Don't come back.

MS. GUEVARA: Rick's made sure -- he asked me that question already.

MS. PATTERSON: Very good.

ACTING CHAIRMAN GUNNING: Any other questions from Board Members?

MS. WHITALL-SCHERFEE: I have a question. I saw your 252,000 relocation reserve for the tenants during relocation, but you mentioned just now that about ten tenants would need to be permanently relocated.

MS. GUEVARA: Right.

MS. WHITALL-SCHERFEE: How much is the anticipated relocation for that, and where do I --

MS. GUEVARA: The 200 and --

MS. WHITALL-SCHERFEE: -- find it?

MS. GUEVARA: The two -- I don't know the exact. I can ask Danni. I know that the 252,000 for the relocation was to include both permanent and temporary.

So, Danni, do you know how much it's going to cost? I know it could be a maximum up to 20,000 for this for relocation.

This is my -- our borrower, Danielle Curls Bennett with Allied Properties Development.

MS. CURLS BENNETT: Good morning.

To answer your question, we have our relocation budget of 252,000, which, as Nan says, includes the cost associated with permanent relocation as well as temporary relocation. We've hired a relocation consultant, Overland, Pacific & Cutler, to work with and assess the current income of our current tenants, and we've come to the determination that ten families will require permanent relocation because they are over income qualified. And applying the formulas required under the Uniform Relocation Act, which they have a relatively small amount of a relocation assistance payment and fixed moving payment for those ten households, which totals about $30,000, which is relatively low considering the costs, that it provides a subsidy of about 42 months. And that's based on the current housing that we've identified for those families to go. And so that leaves the balance of 230,000 -- or 220,000, rather, for our relocation costs.

And given the move-outs that have occurred because of the permanent relocations, the current vacancies, we'll be able to relocate our temporaries on-site, and that's allowed us to operate within that budget.

MS. GUEVARA: Anything else?

I do want to add one last thing. With the Mental Health Services Act, the 20 MHSA units were also awarded a capitalized operating subsidy to pay for the difference of rent collected to expenses of the unit. And that is projected to last for 28 years, and the intent is that the Mental Health Department in San Bernardino County will renew the subsidy five years prior to exhaustion.

MR. JACOBS: Are the MHSA units spread throughout the project?

MS. GUEVARA: Yes, sir.

MR. JACOBS: They are.

MR. HUNTER: Is the County going to directly provide the services, or do they have a contractor to do that?

MS. GUEVARA: The County is. Phoenix. It's the county Department of Mental Health that will be providing all of the supportive services for this project.

ACTING CHAIRMAN GUNNING: Good. At this time we'll entertain any comments from the public.

Seeing none, is there a motion to adopt the resolution?

MR. SMITH: I move to adopt the resolution.

ACTING CHAIRMAN GUNNING: So moved. Second?

MR. SHINE: Second.

ACTING CHAIRMAN GUNNING: Mr. Shine.

JoJo, call the roll.

MS. OJIMA: Ms. Caballero.

MS. CABALLERO: Aye.

MS. GUEVARA: Thank you very much. We appreciate your time.

ACTING CHAIRMAN GUNNING: Thank you, Nan.

MS. OJIMA: Ms. Whitall-Scherfee.

MS. WHITALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Gunning.

ACTING CHAIRMAN GUNNING: Aye.

MS. OJIMA: Resolution 13-16 has been approved.

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Item 5-C. Discussion, recommendation and possible action regarding final loan commitment for the following projects: 13-034-R/S, Regency Court. (Resolution 13-17)

ACTING CHAIRMAN GUNNING: All right, move along, last project. Jim, go ahead.

MR. MORGAN: The last project, Regency Court, the project officer, Steve Beckman.

MR. BECKMAN: Good morning, Mr. Chairman and Board. Good to be here.

Regency Court is a project in our portfolio. It was originally built and financed in 1995, so there will be a yield maintenance to the Agency of about $753,723. It's a 115-unit affordable senior project located in Monrovia, which is here in Los Angeles County.

Here's the 30,000-foot view, so to speak. It sits in the southwest corner of Monrovia. The highway that you see to the south is the 210. The project is equidistant by about seven miles between Pasadena and Azusa and then 14 miles northeast of Los Angeles.

Now, this is a little bit closer view, and I have to ask you have you ever seen a piece of property shaped like this? This is actually an abandoned railroad easement. So all of the units -- there's 22 one- and two-story buildings that are -- that are arranged all along the corridor. There are various accesses to streets. In the project there's about 113 parking spots, so maybe one per unit.

Of the 115 units, 107 are one bedroom and eight are two bedroom. One of the twos is a manager.

The developer is USA Properties Funds. They're actually in Roseville, California, a company that is over 30 years old. It's developed 11,000 units in 72 communities in California and Nevada. They will also general the rehab and manage the property as well.

The -- well, I was going to say there's a 55-year ground lease with Los Angeles County Community Development Corporation, which will be extended another 55 years for this deal. The LA CDC also has a piece of financing in the deal that I'll talk about a little bit different -- a little bit later. CalHFA also has a first lien on the fee, which we will take, again, for this new financing as well.

So now looking at the property itself, the property's in really good shape. We're only going to spend just a little bit south of $25,000 a door. We're going to do -- some of the big-ticket items, we're going to do roofing. They're going to install solar and therm solar, for both electricity and hot water. There's going to be a replacement of boilers, HVAC. In the units they're going to replace the appliances with Energy Star appliances, and then they'll do painting, cabinets, fixtures and things like that as needed.

Okay. Go ahead to rents. Here are the rents here. The thing that I wanted to say about this is that the borrower negotiated with CalHFA and Los Angeles County to do a two-year rent increase of 10 percent over that period. The rents have been very, very low for a long time because the financing in place took -- swept all of the residual receipts, so there was never any incentive to raise rent, so they've been very, very low. So in order to make our perm cash flow and then pay for the renovation, we raised the rents 10 percent over a two-year period, which in effect will only be about $50 per unit when it is all said and done. The other thing of note is that even at the fully increased rate, the rents are going to be somewhere around 150 to $200 less than the 50- and 60-percent AMI maxes, so they're still quite affordable for these folks.

And I just want to chat, how are we going to pay for this? Our acquisition rehab loan is 6.7. It will be a 24-month loan at 4.85 percent. That will get paid down to a permanent amount of 5,530,000. That will be a 40-year term at 5.95 percent.

As Tim and Jim mentioned earlier, we're going to use an RHCP subsidy, and in the case of this project it will be a note that will tail on the end of the 40-year term. That's $670,000. The seller is carrying back $750,000, and that's a 55-year loan at 3 and a half percent with residual receipts.

And then as I mentioned before, LA CDC had a note on the property. It was a 1,394,636, but what I wanted to bring up here is that $500,000 is coming out of this project to pay that note down to 894,636. So with the demise of redevelopment agencies and such, a lot of localities are trying to recapture money, and this is something that's going on. Instead of just extending the note, they're asking folks to pay down, and in this case it was $500,000.

The environmental was clean. And in addition to that, the borrower applied for an earthquake insurance waiver, and it was deemed that their probable maximum loss was way south of 20 percent, so we're going to go ahead and grant that to them.

Relocation in this case, the borrowers determined that all the work could be done with tenants in place. They have written a comprehensive relocation plan, and if in fact any of the tenants need to be temporarily displaced, they have funded up their soft costs contingency to cover that, so there's plenty of money in there for that.

I know there's been discussion about cost for acquisition, and in this case it's $53,600. As I mentioned before, we're going to spend about 25 per door on the rehab. All in, this project is about 107,000 a unit, so that's a pretty good use of resources to extend affordability for seniors down there in Monrovia.

The last thing I wanted to talk about was this is a real make-sense deal, especially in this market down there. Seniors are the fastest growing segment of the population in the primary market area. And all of the projects, existing projects, down there, both affordable and market rate, are chockfull of waiting lists. So -- and actually there isn't really anything on the horizon, either, to build any time soon, so this -- it's a good thing we're doing this.

Thank you.

ACTING CHAIRMAN GUNNING: Steve, would you care to comment on the earthquake waiver? What was that?

MR. BECKMAN: We allow projects to have a seismic study performed anywhere in the state. And if the engineering firm determines that given the ground it sits on and all of the analysis that they go through, that the probable maximum loss in a seismic event is less than 20 percent, then we can grant an earthquake insurance waiver.

ACTING CHAIRMAN GUNNING: Meaning they don't have to get earthquake insurance?

MR. BECKMAN: Yes.

MR. MORGAN: Mr. Gunning, let me -- if I could just add on to what Stephen says. All CalHFA permanent loans require -- all CalHFA loans require earthquake insurance, period. They have the option to select -- CalHFA does have policies in place through the Office of Risk and Insurance Management. They can select and participate in our earthquake insurance pool, or they can select their own earthquake insurance.

That said, they're offered the opportunity to seek an earthquake insurance waiver through a contracted seismic consultant that we have under contract to provide extensive seismic review to meet our seismic insurance -- or seismic waiver criteria. And that criteria is that the probable maximum loss is 20 percent or below. And so they've done that due diligence and have met our thresholds for our earthquake insurance waiver.

ACTING CHAIRMAN GUNNING: Any other questions by the Board, Board Members?

Tia.

MS. PATTERSON: So you're getting additional affordability for a longer period of time? Because if you just look at it, you already have an affordable housing unit that's in good shape, so why -- why do this? And so I'm seeking the "why do this?" The "why do this" is?

MR. BECKMAN: Well, we're preserving the existing affordability for another at least 15 or so years, yes, in a market where seniors are the fastest growing segment and there really isn't a whole lot of places for them to live, especially in an affordable market.

MS. PATTERSON: Because if you did nothing, this property could be sold and --

MR. BECKMAN: Certainly.

MS. PATTERSON: -- it wouldn't be affordable for anyone.

MR. BECKMAN: It could go to market.

MS. PATTERSON: In 12 years.

MR. MORGAN: In 12 years. And, Tia, we really like projects to remain in our portfolio.

MR. BECKMAN: Yes.

MR. MORGAN: As you can see, it was in pretty decent shape because we're proactive in our asset management of those projects. So we really strive to retain those projects and not let them go elsewhere.

ACTING CHAIRMAN GUNNING: Any other questions?

At this time we'll entertain any questions from the public.

Seeing none, let's call the roll -- oh, no. Is there a motion?

MR. JACOBS: I'll move the motion.

ACTING CHAIRMAN GUNNING: Thanks, Matt. We need that first.

Is there a second?

I'll second it.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Whitall-Scherfee.

MS. WHITALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Thank you.

Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Gunning.

ACTING CHAIRMAN GUNNING: Aye.

MS. OJIMA: Resolution 13-17 has been approved.

ACTING CHAIRMAN GUNNING: Jim, thank you very much.

MR. MORGAN: Thank you.

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Item 6. Discussion, recommendation and possible action regarding Single Family Conventional Loans (Resolution 13-18).

ACTING CHAIRMAN GUNNING: All right. Item 6, Rick, you're up. Discussions regarding our single-family conventional loans.

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

Today I'd like to give an introduction to our -- more of a map as to where we've been and where we're going with the single-family lending programs. And as most of you remember, in March of this year we -- the Board authorized Resolution 13-08, which was approval of our TBA model, to be announced model, which is the vehicle which we're using for our single-family products, which minimizes risk to the Agency by the use of the master servicer and hedge facilitator.

Also at that same board meeting in March, we passed Resolution 13-09, and at that time the -- what the resolution says is that we're allowed to use certain single-family products, which uses the TBA model. And one product was CalPLUS, FHA Premium. The other one was CalHFA FHA.

Now, using those products with other products we have is how use the TBA model, and we promised the Board that we would continue to come back and update the Board as to how that project -- how those products are doing, and that's what Ken will start out his presentation with.

But if you'll also notice that we have Resolution 13-18 and 13-19 and what we're -- what is

13-18 is approval of conventional loans. So what do I mean by conventional loans? I mean those loans that are under the Fannie Premium guidelines, no longer FHA like we did under the first, the first programs, under 13-09.

So conventional being Fannie guidelines, also private mortgage insurance. And with private mortgage insurance, what differs from how we did single loans before, we used to do single loans with CADA, and obviously that put the Agency at a higher risk. But with these conventionals, now we use the TBA model, and we will also be using private mortgage insurance to minimize that risk.

Further, what is the reason for conventionals -- and we'll get into this as Sheryl speaks more about it. One of the reasons for conventional is there are benefits to those with higher FICO scores, because with those higher FICO scores, they can lower their payments because the PMI would be cheaper than the MIP, the mortgage insurance premium that's used by HFAs.

Pretty much the same target population; however, there's another advantage in the -- with the conventional. Basically after 78 percent loan to value, that private mortgage insurance can go away, which saves the borrower even more.

We also are -- in the last September Board meeting, we presented the Energy Efficient Mortgage and Grant. And what we'd like to do is enhance on that today, as well as seek approval from the Board for Resolution 13-19.

So Ken is going to start out with a little bit of historical data, as we had promised the Board, regarding our FHA, CalPLUS FHA Premium and CalHFA FHA. And then Sheryl will go forward with the conventional products that we propose. And then at the end, we would like to go over the Energy Efficient Mortgage and Grant.

So, Ken, go ahead.

MR. GIEBEL: Good morning. Thank you.

I'm just going to take you through some numbers for the first four months of the year, things we've talked about before in our portfolio.

The first one are the mortgage credit certificates. We started this about, what, it says May '12. We have constantly seen increases in our certificates, and we're projecting at the end of this fiscal year we'll do somewhere between 11- and 1200 reservations of the current conversion of those, depending on paperwork. So this is a growing benefit we provide to first-time homebuyers, so you can see where we are.

We're starting to do about a hundred a month in reservations. 70 -- 65, 70 percent of those actually go through. I think that could be attributed to two things -- well, three, actually, the first one being our process seems to be pretty seamless, the way we're doing it with our provider; two, we're a little less expensive than what some of the other people are charging. We're at 375 per certificate; and as the counties do not want to use their allocation, they seem to be sending more business our way. We don't solicit it, but it just seems to be happening, seeing where it's coming from. So that's the mortgage credit certificate. And if we get over a thousand, we will be about 200 above plan on reservations, so.

I wanted to update you on CHDAP, the downpayment program from the bond. If you remember, in July we redid our underwriting requirements. That's when we changed the DTIs to 43, put in the 640 and 680 FICOs, and the payment requirements with the lenders, so you can see that the business has dropped on CHDAPs. And this is reflecting the most onerous part of this, because it takes the loan officers some time to figure out how to do this.

So just to let you know, we were doing about 30 a day. We dropped to about ten to 12 a day. It went up to 15 a day. Then the government shut down, and we went back down to eight to ten a day. And now we're back up to the low 20s. So we're doing anywhere from 90 to a hundred a week. So it's -- the market is figuring out how to underwrite these with the new underwriting requirements for compliance. So this will probably change to be about either 50/50 or 60/40, we can expect maybe the volume for CHDAPs.

And these are all still stand-alones. Okay. They're with other first mortgages to either be cut in half or by about 40 percent; that's what we're projecting.

The new products that have been out for a couple of months now, we have 61 eligible lenders that can use U.S. Bank, which is our master servicer. They are signed up with U.S. Bank. In addition to be approved by CalHFA, you have to be approved by the master servicer.

We have 38 lenders of those 61 who have indicated they will do the program. This is the CalPLUS FHAs. And right now we have loans from four lenders -- is it actually four or five?

MS. ANGST: It's four.

MR. GIEBEL: It's four. Yeah. We have now 17 reservations. Those have all come in the last like two or three weeks, as they figure this out. We're saying it's going to take us three to six months for this to get going.

You're going to see in a minute, I'm going to talk a little bit about the needs for the conventional product. That will change the landscape considerably.

Just to let you know, we have -- in our lender training department in outreach we have three people. They have done over 18 trainings from July to August. They've reached about 1100 loan officers. We've done six events and conferences, spoke at four industry panels. I'm going to another one tomorrow. And we've -- in addition to sending out a direct mail piece -- and if you remember those six counties in L.A. where we're focusing all our media and outreach and advertising, that -- that mailing was 77,000 Realtors on a direct mail piece, and we have directly contacted through CAR 7,000 Realtors across the state.

What we're talking to you about today -- and Sheryl will take you through the products in detail -- are what we're calling Phase II. Again, as Rick said, these are still TBA models on the secondary marketing model. And we're going to talk to you about a conventional loan, and then we're going to talk to you about the CalHFA Energy Efficient Mortgage, which we presented last time.

These two products, the conventional loan and the Cal EEM, as you'll see, this is what we currently have. We have the CalPLUS FHA, and we have the straight FHA. We are proposing the Cal Energy Efficient Plus Grant, CalPLUS Conventional with the premium -- again, that is the build-in ZIP loan, the downpayment assistance loan of 3 and a half -- and then a straight CalHFA conventional. Those three latter products -- the EEM, the conventional CalPLUS and the Cal conventional -- will be unique to CalHFA. No one will have those products in the marketplace.

And one of the reasons that -- and I'll let Sheryl talk to you about the underwriting part and -- is the conventional business is growing considerably across the country. The other HFAs are finding this is becoming a much larger product in their lending portfolios because as they change the requirements on FHA products and the MI alone and the premium you have to pay -- and you have to remember, it never goes away. And our loan officers, now that this conventional is a little bit more affordable than an FHA, do not want to stick their borrowers with a payment of 200-some-odd-plus that never goes away.

So that's the growing need. And what you're going to see, it's a -- it's a Fannie Mae preferred product only for HFAs. No one else in the marketplace will have it.

And with that, I'll turn you over to Sheryl.

MS. ANGST: Good morning.

I'm going to start with a conventional first mortgage loan product. And we just wanted to show you an overall market share of conventional loans. The National Association of Realtors has tracked how many borrowers are using conventional loans over the last several years. And as you can see, it's been going up on both -- for all borrowers across the board. It's about 47 percent now are using conventional loans and are -- on first-time homebuyers, it's also going up, about the same average. And right as of 2012, 33 percent of all first-time homebuyers were using now conventional loans again.

Under the proposed CalHFA conventional first mortgage product, we're going to look at the CalHFA -- or CalPLUS, excuse me, conventional, which is an FHA Preferred Premium. It's a 30-year loan, which is going to be combined with a down of Zero Interest Program, ZIP, downpayment assistance.

We're looking at the figures. We have to do some final research. It's going to be somewhere between 3 and 5 -- 3 and a half percent so we don't go over a hundred percent financing with those two. It's a premium priced first mortgage allowing the first mortgage to be sold above par, which will pay for the ZIP. And it can be combined with the CHDAP or the Extra Credit Teacher Program and the MCC.

The actual CalHFA conventional is FHA Preferred. It is a market rate on the first mortgage, and it can be used with the CHDAP, ECTP or -- I'm sorry, CHDAP or ECTP and the MCC.

Using the Fannie Mae HFA Preferred, it's a trademarked program by Fannie Mae. It's their flagship affordable lending product. It's exclusive for HFAs, and it's targeted to first-time homebuyers with limited funds for downpayment and closing costs.

Under the HFA Preferred, their maximum LTV is 97 percent. This is a 97 percent only for HFAs. The rest of the industry is stuck at or limited to 95 percent. We are using responsible homeownership. We are going to limit the FICO scores to 97 percent to 680, which is our master servicer's requirements plus most of mortgage insurance requirements. We will still require the homebuyer education and the 43 DTI.

Fannie Mae does allow a maximum 105 CLTV with Community Seconds, but CalHFA will limit ours to 103.

Mortgage insurance rates are lower on FHA products -- lower than on FHA products and can be removed once the LTV is reduced to 78 percent. And the guarantee fee is lower than any other lender can offer on a loan.

And just so you know, a guarantee fee or a G-fee eliminates long level price adjustments or fees. So it takes care of Fannie Mae's risks and profit operational costs.

This is an example of the mortgage insurance premiums on an FHA Preferred versus FHA. As you can see, FHA requires a 1.75 percent up-front MIP, which we're not on the conventional products. And using a 680 FICO score, you can see the difference there at 85 percent to 135 -- 1.35; 72 percent, 1.35; and 44 percent to 1.35. So it's quite a bit of a difference. And if your FICO score is higher, it even drops further. As an example, on the 97 percent with a 720 FICO score, you'd be at a 65 basis points versus a buck 35.

And again, here's just an example of what the payments would be for your borrower. Using a 250 sales price, a 680 FICO score, the FHA rate would be 3.75; the Fannie Mae Preferred would be 4 and a half, but as you can see, the payments are almost identical, with the Fannie Mae product being slightly less.

Now, however, if you were to have a 720 FICO score, your MI would drop to $131, and your total overall payment would drop to 1691. And then, again, the mortgage insurance will go away on the Fannie Mae product where it will not on the FHA product.

MR. GIEBEL: Any questions on the conventional before we move to the Energy Efficient product?

Tia?

MS. PATTERSON: Are you anticipating you will be doing more of these?

MR. GIEBEL: We think -- based on the other FHAs, what they're seeing, we believe it will be 50 percent.

MS. PATTERSON: Of what you're currently doing?

MR. GIEBEL: Yeah. Of the total volume we're projecting, we think the conventional should be half the business.

And the other issue is, as we've said -- I think I've said it and Sheryl said -- nobody else will have this, so nobody else can get you 97 on a conventional product, and that's -- that's obviously a big deal. And if the qualified mortgage rules come out the way they are expected, because we -- NCHSA just responded to those. You had to have them in on the 31st of October -- FHA will get considerably tighter. 96.5 might not be the amount that they'll loan to.

MS. PATTERSON: And will this be statewide or just in certain --

MR. GIEBEL: Statewide.

MS. PATTERSON: -- geographic areas?

MR. GIEBEL: It will be statewide.

And it will have the income and sales price limits. Those stay in place. All -- all the underwriting criteria stays exactly the same. Okay?

All right.

MS. ANGST: Okay. On the CalHFA Energy Efficient Mortgage plus Grant, this is an FHA product. It will be -- assist low to moderate income homebuyers to fund energy efficient home repairs as part of the FHA insured first mortgage. It will enable the borrower to complete more improvements, lowering their energy bill, improving their home comfort and improving the home value.

It's a specialty product for CalHFA, and its premium-priced interest rate on the first mortgage allows the loan to be sold at a premium to fund the grant. The grant will be for the lesser of 4 percent of the first mortgage loan amount or maximum allowed under the HERS or the Home Energy Rating System and can be combined with a CHDAP or an Energy Efficient Mortgage and the MCC, but it cannot be combined with the ZIP.

We're going to go ahead and use the same underwriting criteria that we had approved previously, so the 43 DTI, et cetera. The CalHFA Energy Efficient Plus Grant program may exceed 103 CLTV when combined with CalHFA subordinate financing. FHA does allow the final loan amount to exceed the maximum FHA mortgage only by the amount of the energy efficient improvements.

And then the other thing which is a little different is the home warranty requirement. We're excluding new construction properties and items covered by the manufactured warranty on the energy efficient mortgage. And just so you are aware, we have done some research after we went out with the two-year home warranty, and we have not been able to find a company who will actually do a two-year home warranty off the bat. So what we're doing is having the borrowers sign an affidavit that they are going to have a two-year warranty and they have to have a one-year warranty with a renewable.

ACTING CHAIRMAN GUNNING: So, Sheryl, what kind of energy improvements are we talking about?

MS. ANGST: It could be windows. It could be new roofing. It's insulation. It's energy efficient appliances, which is generally the refrigerator and the dishwasher. Weather-stripping. It can be some solar.

MR. GIEBEL: Heating and air.

MS. ANGST: Heating and air, yes. Water heaters.

MR. GIEBEL: What happens is on the FHA Energy Efficient, you get 5 percent. And we will add our 4 on top of it so you get 9, and there's a limit, I heard 17,000.

MS. ANGST: No.

MR. GIEBEL: No, there's no limit on what you're going to get. So anyway, that -- it considerably, almost doubles, the amount they can get.

MS. ANGST: It's also -- just so you know, it's -- because of the climate neutrality in parts of California, i.e., Southern California, the borrowers with just the 5 percent, a lot of times they do not qualify because the -- their PG&E bills do not move as much. However, when we add that 4 percent and the savings go up, it now allows them to qualify for the additional 5 percent where they would not before. So it's actually going to help more people in California.

MR. GIEBEL: And Sheryl's been working with the HUD FHA people on this. They're behind this because their product has been very slow to get off the mark.

Okay. Rick.

MR. OKIKAWA: So with that said, we'd like to request the Board approval for Resolution 13-18, which is for the Phase II conventional products, and as well, 13-19, which is for the Energy Efficient Mortgage Plus Grant.

ACTING CHAIRMAN GUNNING: Thanks, Rick.

Any questions?

MS. PATTERSON: Move staff's recommendation.

ACTING CHAIRMAN GUNNING: Go ahead.

MS. CABALLERO: I have a question. In terms of these products, how do you get the message out to people that might be qualified to actually avail themselves of it?

MR. OKIKAWA: That's Ken's area as Mr. Marketing.

MR. GIEBEL: As we did the Phase I marketing, we will have a Phase II. We use PSAs, radio in English and Spanish, in those targeted six markets and parts of Los Angeles. We went after the Realtors. We've done business-to-business ads, and the outreach has been so far very much focused on our business-to-business partners, but in the spring when the homebuying fairs start, we will send the outreach team plus some of the people from single-family lending out, too. We are going to look at actually buying media in those six markets this time, so we -- we know exactly what kind of rating points we're going to buy, go after, and what target, so.

MR. JACOBS: The last time they did a push, you couldn't miss it in Southern California.

MS. PATTERSON: Right. But can you go over those market areas for the --

MR. GIEBEL: Okay. The six counties are Riverside, San Bernardino, Fresno, Sacramento -- what's the other one --

MR. JACOBS: Los Angeles.

MR. GIEBEL: -- San Joaquin, and the desert area of L.A. County.

MS. CABALLERO: Thank you very much. I appreciate that, I just hadn't --

MR. GIEBEL: Sure.

MS. CABALLERO: I didn't see them since mostly I'm in other areas. But there -- it's important to get the message out because it's complicated, and so you want people to know it's there --

MR. GIEBEL: Right.

MS. CABALLERO: -- when they're looking for it.

MS. ANGST: In addition, we've spoken to some of the actual HERS raters to get some information, background information. They're also very excited about this. And they want to be able to go out and mention it to their clients, so, you know, they're also excited and will be marketing for us.

MS. CABALLERO: Thank you.

MR. GIEBEL: You're welcome.

ACTING CHAIRMAN GUNNING: Any other questions from Board members?

Is there questions by -- from the public?

Seeing none -- yes, ma'am. Please step forward and state your name.

MS. MAZARIEGOS: My name is Annabella Mazariegos. I'm from Occupy Los Angeles and Occupy Foreclosure. I have a question for you guys.

(Reporter interrupts for clarification.)

MS. MAZARIEGOS: Annabella, A-n-n-a-b-e-l-l-a, Mazariegos, M-a-z-a-r-i-e-g-o-s. Mazariegos.

I have a question with this loan because in the past, a lot of people are losing their homes because of those loan modifications. And the people who -- the lenders, are they going to -- it sounds pretty, but the housing, when -- all this situation with the housing, in 2003, the housing prices was so high. That's not fair. Because it was by fraud that you guys, you paid the price of the properties. And by fraud you sold loans to people who could not afford it. Every city was in coercion with the real estate brokers. Everybody was making a buck off the poor people. Minorities were affected.

People who invested their life savings -- I am passionate about this. I am not a homeowner, but I'm a renter, and I hate to pay high rents. 2003, I had to leave the country because I could not afford the affordable housing here in Los Angeles. It got too expensive because all this, what is happening.

This is my first time, and I do apologize because I don't know that much about you. I was asked on Sunday if I can come. My friend, he got scared, and he left because he said, "This is too technical, too much for me." It is for me, but I'm learning, and I'm willing to learn and be spoken for the people. Because we are paying taxes, and we are being hurt. I don't think that is fair that you guys are making money, profit over people.

People, we have feelings, and we work hard. Salaries are not -- are not being raised, and yet the real estate is so high up that we cannot survive any longer. People are having mental disabilities because they are being forced to live so many people like sardine cans, too many people in confined apartments because they can no longer afford.

I came in '79 to this country, and we were paying to this 70 -- $79 for a huge apartment and building and one bedroom with a huge kitchen, and now it's no longer. The way they are raising prices is -- I was here before when they were talking about these conventional housing. They are getting Section 8, and people are paying for the smallest spaces so much money. That's ridiculous, when everything was fraud.

Please, regulate the market. Regulate those loans. Make the people who sell those loans sign affidavits that what they are doing is the truth. Do not come again to foreclosure because people are getting killed. They're killing themselves because they can no longer afford. Children are being displaced. Seniors are being displaced. Service pets have been displaced. The same old people are being displaced, and nobody cares. People, we have feelings.

You have to pay attention about the people who pay taxes. Corporations are not paying taxes; we are paying taxes. I'm sorry if I'm emotional, but this is hitting my -- my heart. I'm disabled and when -- I'm in the process of retiring. I'm not going to be able to afford housing in Los Angeles, the way the prices are too high when everything has been fraud.

Thank you.

ACTING CHAIRMAN GUNNING: Thank you for those comments.

All right. Is there a motion?

MS. PATTERSON: Move staff recommendations.

ACTING CHAIRMAN GUNNING: All right. There's two resolutions, so she'll move both of them.

Second for both of them?

MR. JACOBS: I'll second both of them.

ACTING CHAIRMAN GUNNING: We'll take individual votes, though.

All right. Thank you, guys.

Go ahead, JoJo.

MS. OJIMA: Thank you.

For Resolution 13-18. Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Whitall-Scherfee.

MS. WHITALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Gunning.

ACTING CHAIRMAN GUNNING: Aye.

MS. OJIMA: Resolution 13-18 has been approved.

And we will go with Resolution 13-19. Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Whitall-Scherfee.

MS. WHITALL-SCHERFEE: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Jacobs.

MR. JACOBS: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Aye.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Gunning.

ACTING CHAIRMAN GUNNING: Aye.

MS. OJIMA: Resolution 13-19 has been approved.

ACTING CHAIRMAN GUNNING: All right. Thank you, JoJo.

MR. GIEBEL: Thank you.

ACTING CHAIRMAN GUNNING: Thanks, Ken.

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Item 8. Reports.

ACTING CHAIRMAN GUNNING: Okay. The standard complement of reports is next. Anyone have any questions on those or any further discussion on those?

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Item 9. Discussion of other Board matters.

ACTING CHAIRMAN GUNNING: All right. Any other discussion by Board members? Any other issues? Anything you want to bring up, Jack?

MR. SHINE: In public?

ACTING CHAIRMAN GUNNING: I'm sorry, I wasn't going to do that to you.

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Item 10. Public testimony: Discussion only of other matters to be brought to the Board's attention.

ACTING CHAIRMAN GUNNING: At this time we look for additional comment from the public.

Seeing none, any other matters before the Board?

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Item 12. Adjournment.

ACTING CHAIRMAN GUNNING: Good. Hereby adjourn the meeting.

(The meeting concluded at 11:36 a.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 3rd day of December 2013.

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

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