

**STATE OF CALIFORNIA**  
**CALIFORNIA HOUSING FINANCE AGENCY**

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**BOARD OF DIRECTORS**  
**PUBLIC MEETING**

--oOo--

**California Public Employees' Retirement System ("CalPERS")**  
**CalPERS Auditorium**  
**Lincoln Plaza North**  
**400 Q Street**  
**Sacramento, California**

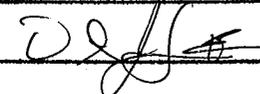
**Tuesday, May 13, 2014**  
**10:03 a.m. to 12:37 p.m.**

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Minutes approved by the Board  
of Directors at its meeting held:

JULY 8, 2014

Attest: \_\_\_\_\_



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

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

MATTHEW JACOBS, Chairperson  
Co-Managing Partner  
Bulldog Partners, LLC

KEN ALEX  
Director  
Office of Planning & Research  
State of California

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

CLAUDIA CAPPIO  
Executive Director  
California Housing Finance Agency  
State of California

KATIE CARROLL  
for Bill Lockyer  
State Treasurer  
State of California

JANET FALK  
Retired, formerly Vice President  
Real Estate Development  
Mercy Housing

THERESA GUNN  
Deputy Secretary, Farm and Home Loan Division  
CalVet Home Loans  
State of California

MICHAEL GUNNING  
Vice President  
Personal Insurance Federation of California

JONATHAN HUNTER  
Managing Director, Region 2  
Corporation for Supportive Housing

PRESTON PRINCE  
CEO & Executive Director  
Fresno Housing Authority

**A P P E A R A N C E S****Board of Directors Present (continued):**

DALILA SOTELO  
Principal  
The Sotelo Group

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

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**Participating CalHFA Staff:**

SHERYL ANGST  
Housing Finance Specialist

THOMAS O. FREEBURGER  
Assistant General Counsel

KENNETH H. GIEBEL  
Director of Marketing

TIM HSU  
Director of Financing

VICTOR J. JAMES  
General Counsel

JOJO OJIMA  
Office of the General Counsel  
Legal Division

RICK OKIKAWA  
Programs Administrator

JACKLYNNE M. RILEY  
Director  
Administration Division

ANTHONY SERTICH  
Manager  
Financing Risk Division

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1 BE IT REMEMBERED that on Tuesday, May 13, 2014,  
2 commencing at the hour of 10:03 a.m., at the California  
3 Public Employees' Retirement System ("CalPERS"), CalPERS  
4 Auditorium, Lincoln Plaza North, 400 Q Street,  
5 Sacramento,, California, before me, YVONNE K. FENNER,  
6 CSR #10909, RPR, the following proceedings were held:

7 --oOo--

8 CHAIRPERSON JACOBS: I'm going to call to order  
9 today's meeting of the California Housing Finance  
10 Agency.

11 --oOo--

12 **Item 1. Roll Call.**

13 CHAIRPERSON JACOBS: JoJo, do you want to start  
14 with the roll call?

15 MS. OJIMA: Thank you.

16 Ms. Caballero.

17 CHAIRPERSON JACOBS: She's outside taking her  
18 photo.

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

20 MS. WHITTALL-SCHERFEE: Here.

21 MS. OJIMA: Thank you.

22 Ms. Falk.

23 MS. FALK: Present.

24 MS. OJIMA: Ms. Gunn for Mr. Gravett.

25 MS. GUNN: Here.

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1 MS. OJIMA: Thank you.  
2 Mr. Gunning.  
3 MR. GUNNING: Here.  
4 MS. OJIMA: Thank you.  
5 Mr. Hunter.  
6 MR. HUNTER: Here.  
7 MS. OJIMA: Ms. Carroll for Mr. Lockyer.  
8 MS. CARROLL: Here.  
9 MS. OJIMA: Thank you.  
10 Ms. Patterson.  
11 (No audible response.)  
12 MS. OJIMA: Mr. Prince.  
13 MR. PRINCE: Here.  
14 MS. OJIMA: Ms. Sotelo.  
15 MS. SOTELO: Here.  
16 MS. OJIMA: Mr. Alex.  
17 MR. ALEX: Here.  
18 MS. OJIMA: Mr. Cohen.  
19 (No audible response.)  
20 MS. OJIMA: Ms. Cappio.  
21 MS. CAPPIO: Here.  
22 MS. OJIMA: Mr. Jacobs.  
23 CHAIRPERSON JACOBS: Here.  
24 MS. OJIMA: We have a quorum.  
25 CHAIRPERSON JACOBS: Great.

1 --o0o--

2 **Item 2. Approval of the minutes of the March 17, 2014**  
3 **Board of Directors meeting.**

4 CHAIRPERSON JACOBS: Let's go to the minutes  
5 from the last meeting. Did anyone have comments or  
6 adjustments to the minutes?

7 Does anyone want to move to approve the minutes?

8 MR. HUNTER: I'll move adoption of the minutes.

9 CHAIRPERSON JACOBS: Great. Second, anyone?

10 MS. SOTELO: I'll second.

11 MS. OJIMA: I'm sorry, who's second?

12 MS. SOTELO: Dalila.

13 MS. OJIMA: Thank you.

14 Mr. Chair? Should we acknowledge Ms. Caballero?

15 CHAIRPERSON JACOBS: I'm sorry. I should do  
16 more than just nod my head.

17 MS. OJIMA: Ms. Caballero is present.

18 CHAIRPERSON JACOBS: Oh, yes, welcome. You were  
19 taking your photo outside, and so I want to acknowledge  
20 you just walked into the room.

21 MS. OJIMA: Thank you.

22 All right. Ms. Caballero.

23 MS. CABALLERO: Here.

24 MS. OJIMA: To approve the minutes.

25 CHAIRPERSON JACOBS: We're voting on the

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1 minutes.

2 MS. CABALLERO: Oh.

3 CHAIRPERSON JACOBS: You just happened to be  
4 outside when we did the roll.

5 MS. CABALLERO: Then it's an aye.

6 MS. OJIMA: Thank you.

7 MS. CABALLERO: I'll make it easier if I --

8 MS. OJIMA: Yes, both, thank you.

9 Ms. Whittall-Scherfee.

10 MS. WHITTALL-SCHERFEE: Abstain.

11 MS. OJIMA: Thank you.

12 Ms. Falk.

13 MS. FALK: Abstain.

14 MS. OJIMA: Ms. Gunn.

15 MS. GUNN: Aye.

16 MS. OJIMA: Mr. Gunning.

17 MR. GUNNING: Abstain.

18 MS. OJIMA: Mr. Hunter.

19 MR. HUNTER: Aye.

20 MS. OJIMA: Ms. Carroll.

21 MS. CARROLL: Aye.

22 MS. OJIMA: Mr. Prince.

23 MR. PRINCE: Aye.

24 MS. OJIMA: Ms. Sotelo.

25 MS. SOTELO: Aye.

1 MS. OJIMA: Mr. Jacobs.

2 CHAIRPERSON JACOBS: Aye.

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

4 CHAIRPERSON JACOBS: Great. Thanks, JoJo.

5 --oOo--

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

7 CHAIRPERSON JACOBS: Today we've got a fairly  
8 important agenda with the financials and the business  
9 plan for the Agency, and so I'd like this to be a  
10 discussion, and please speak up and let's actually  
11 discuss how we're going to move forward here.

12 Claudia, do you have any remarks before we jump  
13 in?

14 MS. CAPPPIO: Just in terms of the agenda, the  
15 report of the Audit Committee, do you want to save that?

16 CHAIRPERSON JACOBS: Yeah.

17 MS. CAPPPIO: Okay. So you want to go right into  
18 the business plan.

19 CHAIRPERSON JACOBS: Well, I guess -- let's  
20 talk -- we can go to the Audit Committee.

21 --oOo--

22 **Item 4. Report of the Chair of the Audit Committee.**

23 CHAIRPERSON JACOBS: Michael Gunning, chair of  
24 the Audit Committee, you want to -- we have  
25 CliftonLarsonAllen here.

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1 Nancy Jones and Mandy Heagy, are you both here  
2 still? There you are.

3 (Off the record discussion where it was  
4 discovered that only a limited number of  
5 microphones can be on at one time.)

6 MR. GUNNING: There it is. Now we can talk.

7 Thank you, Mr. Chairman, members.

8 The Audit Committee met this morning. As I said  
9 in the committee, it's always good to have a  
10 straightforward audit. There were no audit findings or  
11 management letter for the loan insurance fund. However,  
12 there were a couple adjustments. The corrections were  
13 made during the audit, but we turned out okay.

14 Lori and the team this year, we did lose Mike,  
15 but we've got Nancy with us now, who's just as capable  
16 and look forward to working with her.

17 We're good. Any questions?

18 One other thing, they did -- we had some duties  
19 and our charter, which was done back in 2006, so at the  
20 November meeting we're going to take a look at that and  
21 evaluate that again, so that will be on the agenda for  
22 November when the committee meets again to look at the  
23 Agency's fund.

24 That's it, Mr. Chairman.

25 CHAIRPERSON JACOBS: Thank you, Mr. Gunning.



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1 target lending volume requirements for both single  
2 family and multiple family to link our revenue estimates  
3 with our operational expenses. This work is essentially  
4 grounded in improving programs and financial resources  
5 for affordable housing in California, and that includes  
6 coordination of programs and greater collaboration among  
7 those agencies and services throughout the state  
8 government that do affordable housing, expansion and  
9 diversification of revenue streams, looking at  
10 operational efficiencies where we can find them, and  
11 continue to aggressively pursue foreclosure prevention  
12 during the next two to three years with our Keep Your  
13 Home California funds.

14 So how to proceed today? First, I would like  
15 Tim Hsu, our financial officer, to provide information  
16 and projections on Agency income and cash flow versus  
17 operational expenses -- again, this is directly in line  
18 with what you were concerned about in the March  
19 meeting -- then request that the Board review the draft  
20 business plan and discuss questions and comments. Upon  
21 conclusion, the Board can choose to adopt the resolution  
22 approving the plan, or you can pause action and go to  
23 item 6, which is the budget for next year and look at  
24 those as one, as long as at the end of the day we  
25 request that you provide action, affirmative action, to

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1 us on both resolutions, adopting the strategic business  
2 plan and adopting a budget for the next year.

3 I'll be glad to take any questions or comments.

4 So we should proceed with Tim.

5 CHAIRPERSON JACOBS: Okay.

6 MS. CAPPIO: Your show.

7 MR. HSU: Good morning, Mr. Chairman, and good  
8 morning, Members of the Board. With your indulgence,  
9 I'd like to try something different today. No sports  
10 analogy or metaphors. And you know that I can mix  
11 analogies with the best of them, so no fourth quarter  
12 home runs. And I'm going to assume that everybody today  
13 prefers to deal with the turbulent times and prefers to  
14 be a human being than a dog. And all of this is  
15 predicated on something I read recently. Someone shared  
16 an article with me which had a profound influence on me,  
17 and I'd like to use a quote from this article to frame  
18 my presentation today. And the quote is: "All fear and  
19 hope arises from looking backward and forward. It is  
20 only in the present moment, free from hope and fear, do  
21 we receive the gift of clarity and resolve."

22 Alas, I will spend quite a bit of time today  
23 talking about the past, and I will also spend some time  
24 talking about the future, but it's my aspiration that at  
25 the end of the presentation, that we will come back to

1 the present with some clarity and resolve and have some  
2 clarity on what is it today that we ought to be doing.

3 So when we talk about the budget, when we talk  
4 about the Agency's ability to pay for its own  
5 operations -- and as a reminder, the Agency does not --  
6 the Agency is not a burden on the State's general  
7 obligation fund. The Agency pays for its own  
8 operations. And when we think about the budget, we  
9 think about where do we get the money to pay for our  
10 operations. What should we be looking for and what we  
11 should be looking at is sometimes the more important  
12 question, because I know that we just had a presentation  
13 regarding the audit of the insurance fund. When you  
14 look at the various entities of the Agency and look at  
15 our financial statements, it is a lot to consume. But  
16 what should you be looking at?

17 So this is on page 3. This is a 15,000-foot  
18 view of CalHFA. So at that level, you will see in the  
19 orange box our single-family indenture and in the yellow  
20 box our multifamily indenture. You might recall  
21 recently that we've managed to decouple the rating of  
22 the yellow box from the blue box. You'll notice this  
23 general obligation, which is in blue. And today what  
24 we're going to focus on is this green box. This green  
25 box is the non-bond assets that the Agency has.

1           So you will notice that in this box today, I'm  
2 showing that we have \$186 million of cash and  
3 securities. What we also have in the green box is  
4 another \$175 million of loans receivables. Okay. We'll  
5 come back to the importance of that in a little bit.

6           So this green box, how did money or the assets  
7 get into this green box? When things were doing better,  
8 perhaps more than five years ago, these orange boxes and  
9 these yellow boxes used to feed cash and assets into the  
10 green box, because the Agency, in effect, if these  
11 indentures were to be completely paid off and there's  
12 any assets, any equity left, the Agency takes possession  
13 of those equities.

14           So this green box, why is this green box  
15 important? Because this green box pays for that roughly  
16 \$40 million of operating expenses that we will spend  
17 some time talking about today. And that box is the --  
18 the -- sort of the main character or the -- I don't want  
19 to say point guard, but it's the main character to look  
20 at today. And that's the -- that's the entity that  
21 we're going to focus on as we think about the Agency's  
22 wherewithal, our ability to sustain paying for its  
23 operations.

24           So I'm chagrined that every time I present this  
25 chart, the person who asked for this chart initially is

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1 never here, and that's Tia. We -- we started creating  
2 this chart last year when Tia had asked the question  
3 about, well, how did we do in this past nine months or  
4 12 months? Prior to that, we were more forward looking,  
5 and we will have charts later on more forward looking  
6 and stuff.

7 So what this chart is really doing is showing  
8 you how that green box fared in the first nine months of  
9 the fiscal year. So let me just walk you -- this chart  
10 warrants a little bit of walking through in detail. So  
11 if you look at July 2013, what you'll see is that in  
12 July 2013, in the columns what I'm doing is I'm stacking  
13 the income items that comes into the green box. So  
14 there's roughly about \$1.5 million of interest on  
15 mortgages and securities.

16 As I mentioned, this -- this green box owns  
17 about \$175 million of loans receivables plus MBSs, so we  
18 got about \$1.5 million in July 2013, and then we got  
19 another half a million dollars in various fee incomes,  
20 which I won't go into in great detail for now. And we  
21 also got about a million dollars of income from loan  
22 servicing. So what we're doing is month by month we're  
23 stacking the amount of income, different income items,  
24 that comes into that green box month to month.

25 And in red we're showing the operating expenses

1 spent by the Agency, also by month to month. These are  
2 discrete observations, although they are connected. So  
3 you can see roughly we spent about \$3 million on the  
4 average. There are some months we spent more; there are  
5 some months we spent less, but on the average we spend  
6 about \$3 million a month.

7 Now, if you add up all these columns and you add  
8 up all the lines and you figure out all the income items  
9 collected in the first nine months of the fiscal year  
10 and all the expenses, you go to the upper right-hand  
11 corner of this chart, you'll see that we collected in  
12 income \$26.8 million and then we collect -- or we spent  
13 in expenses \$28 million, so we had a net deficit of 1.2  
14 million.

15 CHAIRPERSON JACOBS: Tim, how does this compare  
16 with our forecasted income for this period? I mean,  
17 where were we short? Where did we exceed?

18 MR. HSU: In terms of income, we generally are  
19 very close to what we project. And where we're not as  
20 accurate, if you will, is the next chart, which I'll  
21 come to in a second, which is on the prepayment and  
22 repayment of loans. But on income items, we tend to be  
23 fairly steady.

24 So on the income to expenses basis, we do have a  
25 small deficit of \$1.2 million, which is -- which can be

1 alarming.

2           So if you go to the next page, this is page 5.  
3 What this chart is attempting to do now is instead of  
4 just looking at all income items or items that can be  
5 construed as being income items, what we're going to  
6 look at now is everything that is coming into that green  
7 box in terms of cash. Okay. So I'm stacking, once  
8 again, all these items again. So on the bottom of these  
9 column stacks are the same things, carryovers from the  
10 previous page, page 4, but what's stacking on top here  
11 are two items. They're, again, back to July 2013, we  
12 received -- this microphone is really tricky. We  
13 received \$3.2 million of loan repayments in July 2013.  
14 So in addition to all those income items that we show on  
15 page 4, we now have another \$3 million that comes in  
16 because we got some prepayments.

17           So then the other item that added on here is I  
18 do look at October 2013. We also had received about  
19 half a million dollars of reserves that the Agency had  
20 set aside for earthquake insurance at some point. I  
21 won't go into that in great detail, but that cash is  
22 also being released from the reserves as these -- the  
23 earthquake insurance that was set aside for condos, as  
24 the condo loans pay off or they refinance, the balance  
25 goes down, and we release that reserve into this green

1 box.

2 So when those two items stack on top of the  
3 income items, what you now see is that if you add up all  
4 these cash and also release of reserves, they amount  
5 to -- migrating over to the box on the right-hand side,  
6 these additional cash items amount to \$33.7 million,  
7 which makes it -- which makes the first nine months of  
8 the fiscal year, though short on an income basis of  
9 about \$1.2 million, but when you look at just the cash  
10 basis, we are actually -- we actually have a surplus of  
11 \$32 million.

12 MS. FALK: This may be sort of a technical  
13 question, but why isn't this other cash coming in  
14 considered income?

15 MR. HSU: Because these are -- these are -- you  
16 mean the reserves or are you talking about --

17 MS. FALK: I'm talking about the -- well, I  
18 guess the prepayments are not -- the repayments are not  
19 the revenue into the Agency.

20 MR. HSU: Yes, they're certainly revenue, but I  
21 think that the distinction we're making is that suppose  
22 that we run out of these loans. Right? Because -- and  
23 that's a point we will come back to later on, Janet, is  
24 that it's true that in large part these repayments are  
25 helping us meet from a revenue to expenses basis, but

1 part of the issue here is that when I mention that this  
2 green box does have about \$175 million of loans  
3 receivable, they're all very, very seasoned loans that  
4 are paying off relatively quickly. So as they repay and  
5 prepay and as they enter sort of the final stages of  
6 their existence in terms of the loans receivable, if  
7 they -- and, again, we have a chart about this later on  
8 when we sort of bring together the past and the future  
9 together, it's not sustainable to rely on that revenue  
10 source that's out five to ten years.

11 MS. FALK: Okay. I understood that, but on a  
12 given year basis, you could project something about  
13 what's likely to come in only in the next year, right?

14 MR. HSU: We actually have later on charts that  
15 goes out like two and a half fiscal years.

16 MS. FALK: Okay. Even though -- I mean, I  
17 understand that the income might be much more steady,  
18 but that these other sources are going to fluctuate, but  
19 they're still somewhat predictable.

20 MR. HSU: That's correct.

21 MS. FALK: Okay.

22 MR. HSU: So then from a projection basis, we  
23 assume that the loans amortize as expected and they  
24 mature when -- they pay off and mature on the expiration  
25 date of the loans.

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1           CHAIRPERSON JACOBS: One question. The  
2           repayments and the prepayments. I guess what's the  
3           vintage of the loans, and, two, are they getting  
4           recapped with our loans or, you know, with extended  
5           affordability and new facilities from us, or how are  
6           they getting paid back?

7           MR. HSU: Sometimes. Sometimes they are  
8           capitalized, recapitalized, with loans from multifamily  
9           programs. So this past -- back in November, you might  
10          recall the Board passed three multifamily projects, and  
11          all three of those were prepayments that led to new  
12          loans that the program folks here made. Actually, I'm  
13          sorry. I don't want to say all of them. I think one  
14          out of three of them was. The other two were new. And  
15          so that happens sometimes.

16          MS. SOTELO: Tim, I just had another question.  
17          The income from loan servicing is only showing in July  
18          and December. Is there a reason that it's only in those  
19          two periods, at the beginning and mid-term?

20          MR. HSU: There's -- this is really just an  
21          operational practice. It's certainly true that the loan  
22          servicing collects fees every month. We sort of let it  
23          accumulate, and then we'll transfer this accumulated  
24          servicing from the servicing account to this green box  
25          once every six months or so, when it kind of exceeds a

1 certain dollar amount.

2 And that's why it's important to mention a  
3 couple things. This particular analysis is really only  
4 on a cash basis and then they are on an audited basis  
5 because, as you -- as you know, the auditors are usually  
6 looking back at things that happened, but because this  
7 particular exercise warrants that we look forward, this  
8 is unaudited. Plus this is all on a cash basis, so said  
9 another way on Dalila's question, is to say that I'm  
10 showing that the loan servicing I believe -- I think you  
11 all know I'm color blind. I believe that the last time  
12 we received income from loan servicing is in December.  
13 So in theory -- three months have gone by, so in theory  
14 if we were doing accrual accounting, we would have three  
15 months of loan servicing accrues in here. Here I'm just  
16 worrying about everything on a cash basis.

17 So this chart, the punchline here I think is  
18 that we have generated, as what -- I think what Janet is  
19 saying is that if we are worried about just simply  
20 revenues to expenses, this chart would really say that,  
21 well, we generate plenty of revenues versus expenses,  
22 and as a matter of fact, we have a surplus of \$32  
23 million. So you might conclude that, jeez, that must  
24 mean that our cash position in this green box is  
25 actually growing over time.

1           As it turns out, I think that over the last 18  
2 months I have at various times presented to the Board  
3 using -- that we have been using this cash in a very  
4 strategic fashion to target our balance sheet and to  
5 leverage our balance sheet using our cash to call out  
6 these VRDOs which are backed by U.S. Treasury's  
7 Temporary Credit Liquidity Program, TCLP. And in so  
8 doing, these targeted redemptions have bolstered our  
9 credit ratings.

10           Page 8. On page 8 is a summary of how much of  
11 this we have done over the last 15 months or so. We  
12 have used about \$165 million of our unencumbered cash to  
13 redeem our VRDOs, and this is simply a breakdown of how  
14 much we've done in every six month increments.

15           And on page 9, as I mentioned, most of these  
16 redemptions were targeting VRDOs, which are backed by  
17 this letter of credit by U.S. Treasury, which by the way  
18 expires at the end of next year, so it's imperative that  
19 we either take them all out completely or we find a way  
20 to replace them.

21           So this targeted redemption has primarily been  
22 targeting this multifamily indenture, back on page 3, I  
23 believe -- 2 or 3, that's the yellow box. So you can  
24 see that this kind of targeted behavior has actually led  
25 to a tremendous lift in this multifamily indenture's

1 rating. So you can see on page 9 here that we have  
2 gotten a four-notch upgrade from S&P last year, and we  
3 have also gotten a two-notch upgrade from Moody's  
4 earlier this year.

5 So this has -- this behavior of using some of  
6 our unencumbered cash has -- both helps us to leverage  
7 our balance sheet, but also giving us a lift on our  
8 credit ratings. And this -- this targeted behavior has,  
9 again, not focused as much on the orange box, which is  
10 our single-family indenture, which we have only done  
11 that to the tune of \$10 million in the last 15 months or  
12 so, and you can see that we have gotten a two-notch  
13 upgrade from S&P, and it has been somewhat steady in  
14 terms of Moody's. And the blue box, of course, is the  
15 entity that's giving up the \$165 million, and its rating  
16 has been fairly steady over the last couple years.

17 On page 10 -- and I know that this is just so  
18 that I pause. What I'm trying to do is give some sense  
19 of the past, and the takeaway before we go into this  
20 more is that I don't want us to dwell on this. As much  
21 as I'm spending the time to talk about this, I think  
22 that what we really need to do is, as I said in the  
23 opening, that -- not let the past inject fear in us, is  
24 really the main message here.

25 So on page 10, as I mentioned that we have been

1 using some of our cash to target these VRDOs. So as it  
2 turns out, our cash position actually has been  
3 declining. It has declined from \$306 million from  
4 February of last year to \$186 million on April 1st of  
5 this year.

6 And on page 11 for the -- for the accountant in  
7 you, what I thought was to show the line item and number  
8 for how we have gotten from \$306 million as of 2/1 of  
9 last year to \$186 million on 4/1 of this year. So if  
10 you focus on, for example, the 7/1/13, that second  
11 column, you'll see a \$60.6 million. That cash inflow  
12 number, that's a number that I showed you on page 5 but  
13 in graphical terms. You'll see that same number of 28  
14 on page 5 in graphical terms, and that 32.6 in graphical  
15 terms on page 5.

16 And also, I mentioned earlier that we spend \$165  
17 million of cash to redeem our VRDOs. You'll see that  
18 at -- sort of at the very bottom right-hand corner,  
19 right above the yellow box. So this is, again, sort of  
20 a much more detailed reconciliation of how we got to  
21 that -- got from that \$306 million to \$186 million. You  
22 can see that we've been generating a balance cash  
23 surplus, but our cash position has gone down because  
24 we've been employing it to leverage our balance sheet.

25 On page 12, the other justification, of course,

1 that I've brought to the Board over the last 15 months  
2 of why it's okay -- of why is it that it's okay for us  
3 to have a lower cash balance? It is because our  
4 requirement, our need, to set aside for cash so that we  
5 can deal with this collateral posting risk has declined  
6 tremendously over the last I would say two to two and a  
7 half years.

8 So what you can see here is that on February of  
9 last year, we suggested that about 150 to 160 million  
10 dollars of our cash was actually set aside to deal with  
11 that collateral posting risk. And if you look -- so if  
12 you look further back -- and I guess I do want to do  
13 that. Because part of my message here is that there's  
14 no point to dwell on things that happened two and a half  
15 and three years ago, but if you did look beyond that,  
16 this time frame here, we set aside more than \$200  
17 million to deal with this risk.

18 So you can see that as of 4/30 this -- our --  
19 the way that we set aside for this risk is at a hundred  
20 million dollars. So our need to hold onto cash has also  
21 declined because this risk was receded.

22 On page 13, this is -- this is, again, a way to  
23 justify or a way to rationalize the amount of cash that  
24 we have is adequate, the amount of cash that we have is  
25 sufficient, to deal with all the things that we need to

1 do at that green box level.

2 So what you can see is that the \$186 million of  
3 cash that we have on hand, the way we're setting aside  
4 as collateral posting risk is that we say, well, how  
5 much money do we need if we were to -- how much money do  
6 we need if we were to be downgraded by one notch. And  
7 of course that risk of being downgraded by one notch has  
8 receded tremendously over the last two years, but  
9 continuing that tradition of setting aside that reserve,  
10 assuming we were to get downgraded, we suggest that that  
11 reserve would be just a hair under a hundred million  
12 dollars.

13 So that's why I suggest that we have about \$88  
14 million in cash that we can use for -- one of the things  
15 that we talked about last year is that it's useful to  
16 have some internal line of credit for warehousing to  
17 support our programs. So, for example, three  
18 multifamily loans that we did, they closed -- some of  
19 them closed in December, some of them closed in March,  
20 but we didn't do the bond transaction until April, so  
21 the ability to be able to warehouse loans after closing  
22 but before bond sale is extremely useful. So we have  
23 \$27 million, for example, set aside for that.

24 We also have a \$3 million line of credit set up  
25 internally to support single-family lending. So that

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1 cash is being set aside in sort of this stacked column  
2 on the right-hand side. You can see about \$98 million  
3 has been set aside for this collateral posting risk and  
4 a year operating expense that we set aside.

5 And this is another point that is worth dwelling  
6 on, that last year we had shown this particular  
7 set-aside to be two years. But we have always known that  
8 this is something that we're simply doing out of -- as  
9 the lawyers would say, out of an abundance of caution in  
10 the sense that we don't use this money to pay for  
11 operations because I show on page 5 we generate enough  
12 current year cash to pay for operations, and later on  
13 I'm going to also show you that we generate enough for  
14 future current year cash to continue operations.

15 CHAIRPERSON JACOBS: Tim, one question on the  
16 legacy loan prepayments, is there a sensitivity that we  
17 ran where if the rate environment changes dramatically  
18 and those stop coming in early, what does that do to all  
19 this?

20 MR. HSU: In large part the unencumbered loan  
21 receivables that we have in our green box are  
22 multifamily loans, so it's my impression that the  
23 multifamily loans are at least the loans that we have in  
24 that green box. So keep in mind, as I mentioned  
25 earlier, that the stuff, the loans that we have inside

1 our green box tend to be very seasoned loans.  
2 They're -- again, this is my impression. They are less  
3 driven, in my mind, by rate sensitivity versus the  
4 tremendous equity that the developers have in these  
5 projects.

6 Because again, these are not projects that came  
7 on line three years ago, four years ago. These are  
8 projects that probably got originated 15, 20, in some  
9 cases 25 years ago. There's tremendous equity that's  
10 trapped in these deals, and they want to prepay and  
11 recapitalize. And that is a stronger force than the  
12 rate sensitivity. And as you and I know, we all made  
13 New Year resolutions this year that we would allocate  
14 less of our own personal assets to fixing that because  
15 rates were going to go up. But you and I also know that  
16 in the first quarter, fixed income kicked butt. It was  
17 the best performing asset class.

18 So to me, guessing where rates are going to go  
19 is a fool's errand. What is really key to these  
20 projects, these loans, that are inside the green box is  
21 what the developers know that they have tremendous  
22 equity trapped inside, and they want to get it out. So  
23 that's what, to me, is driving the prepayments more than  
24 rate sensitivity.

25 MS. SOTELO: Tim, I think that's a really good

1 point, talking with developers around that. I guess my  
2 question goes back to your boxes. And where in these  
3 boxes -- maybe I'm just missing it. Where in these  
4 boxes do you put money that's available to do programs,  
5 to do loan product, to do, you know, the work of the  
6 Agency? Where does that all fit, and how much is that?

7 MR. HSU: So let me make sure I understand. So  
8 are you saying that if a new project were to -- if we  
9 had someone who wanted to do a preservation program, how  
10 does that flow through the system?

11 MS. SOTELO: Oh, no. No, no. Two separate  
12 points. So I really do see developers wanting to  
13 recapitalize their projects and the repayments  
14 increasing as a result of that desire. That's one  
15 point.

16 The second point is just understanding the cash  
17 from the Agency's -- you know, we've got the operating  
18 expenses. We've got the warehousing line of credit.  
19 Where is the new money, or where is the money to do  
20 programs?

21 MR. HSU: So let's take the example -- let's go  
22 back to page 3. So I'm going to use this deal that we  
23 just closed in April as an example. So I mentioned  
24 earlier that we did three projects, and one out of three  
25 of them was -- was where's that loan before we made the

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1 new loan to the developer. So when that -- when that  
2 old loan pays off, it paid off inside this yellow box.  
3 So then we used that prepayment to call the bond that  
4 had funded it I believe about ten years ago. Then we  
5 issued a new set of bonds under the yellow box, and we  
6 got bond proceeds to fund the new loans. So this yellow  
7 box is sort of the entity that's flowing -- that's  
8 receiving the prepayments and also creating new proceeds  
9 to fund new loans.

10 MS. SOTELO: I guess my question is if you're  
11 setting aside cash that's coming in for the VRDO  
12 obligation, then how much money does that leave beyond,  
13 you know, setting aside 40 million for operations and  
14 for, you know, everything else that you're talking  
15 about? How much money does that leave to do programs or  
16 to do projects?

17 MR. HSU: I think I'm -- sorry, I'm a little bit  
18 dense. I think that the actual funding of the loan to  
19 come from bond proceeds, but it is possible there are  
20 times in which we take, let's say, Agency -- some money  
21 from the green box, too, to facilitate the bond sale,  
22 and that does happen. And I think that that dollar  
23 amount, we don't have a particular set-aside.

24 Said a different way, suppose that instead of --  
25 suppose that we were dealing with, instead of the three

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1 projects that we did this past April, last month, if we  
2 had 30 projects, for example, we would figure out some  
3 way to fund the bond reserves as necessary to make that  
4 bond deal work. In my mind -- in my mind, there's  
5 really -- at least in my mind, I hope Claudia agrees.  
6 In my mind, if we are lending and the lending activities  
7 themselves requires capital from the standpoint of well,  
8 we need to fund reserves in order to make that project  
9 work, I don't think there is a limit, meaning that we  
10 could figure out some way to fund those lending  
11 activities and figure out -- there's -- there's a will  
12 to do that, then we will create a reserve for it.

13 MS. CAPPPIO: And I do agree, just officially,  
14 and let us have that problem coming up. It's a good  
15 problem.

16 MR. HSU: Yeah. And then one way to think about  
17 that, if we are focused on, for example, the boxes on  
18 page 13 is that you can think of -- you can think of  
19 what I've done on the right-hand column here as having a  
20 lot of dollars, but I wouldn't want to suggest they're  
21 idle because risks, as we know as they are, needs to be  
22 dealt with. But at the moment, the amount of collateral  
23 we're actually posting is 50 million, so that we've set  
24 aside nearly a hundred million. Right? And then also  
25 this \$40 million set aside for operating expenses, I

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1 sort of have made the case that we don't actually use  
2 that money. We actually generate enough cash in the  
3 current year to pay for operations.

4 So that alone, you can argue that we have about  
5 40 plus 50 million dollars of cash that, if need be,  
6 just need to be used to support lending, which is not  
7 to -- not to reveal my hand here, is what we need to do.

8 MS. SOTELO: Okay. That's the question I was  
9 getting to. How much of that, of this cash, would be  
10 unencumbered or, you know, unbudgeted to be able to --  
11 to increase our production on the program side? So that  
12 answers the question.

13 CHAIRPERSON JACOBS: I think, Tim, what's  
14 challenging for me and probably some other folks is  
15 just, you know, it's an expense budget here and then the  
16 table shows the revenues, but it would great to see like  
17 almost even a five-year plan of, you know, where we  
18 think the revenue is going to be coming from and just --

19 MR. HSU: We have that.

20 CHAIRPERSON JACOBS: -- together with --

21 MR. HSU: We have that. You just have to live  
22 through the past first, and we'll get to the punchline  
23 at the end. I'm sorry. We'll get there. We're going  
24 to get there. We're going to get there.

25 Okay. Okay. So if no more questions, we have

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1 slayed the dragon that is our past, and I'm going to go  
2 into the future.

3 MR. HUNTER: I just have one more question.

4 MR. HSU: Yes.

5 MR. HUNTER: The Mental Health Services Act  
6 housing program, so the counties transferred funds to  
7 CalHFA to administer on their behalf. Did it end up in  
8 one of these colored boxes, those funds?

9 MR. HSU: So let's go back to page 3. So the  
10 money that's received for the MHSA, is our acronym, goes  
11 into this box on the very right-hand side that we call  
12 contract administration. So the actual get back I  
13 believe was \$400 million. That cash would go in here,  
14 sort of -- it goes in there as a conduit to fund the  
15 loans, but after we make the loans, the loan generates a  
16 small up-front fee for the Agency, along with an  
17 annuity, then that would flow into when you go and look  
18 at page 4, part of that -- part of that fee income.

19 MR. HUNTER: Right. Okay.

20 MR. HSU: Okay? But the actual cash that got  
21 generated by MHSA, we never count that as part of our  
22 own cash because that's the State's cash to run a very  
23 specific program. But the small fee that we're  
24 generating by being the administrator for the program  
25 does show up as projected income.

1 MR. HUNTER: Thank you.

2 MS. CABALLERO: I just want to make a comment.  
3 I really like the graphs. My mind works better when you  
4 show me the graphs than the numbers, but I really like  
5 the way that you've laid it out, so I appreciate it. I  
6 just wanted you to know that.

7 MR. HSU: Thank you so much. I actually spent  
8 an inordinate amount of time preparing for this, so  
9 anyway, so I appreciate that.

10 MS. FALK: Just to give the opposite viewpoint,  
11 I really like the numbers as the way they're presented  
12 on page 11. It's much easier for me to see, understand,  
13 what's going on when you do it that way.

14 MS. CAPPPIO: So that means both, Tim. We'll  
15 just do it both ways.

16 MS. FALK: It's -- and I really appreciate all  
17 the time you spent on the past, but maybe now going  
18 forward we can just start focusing on present and  
19 future.

20 MR. HSU: We will. So starting on page 14,  
21 let's talk about the future next, because, again, it's  
22 the past and the future that gives us fear.

23 So what we're going to talk about -- and I think  
24 that I'm just going to talk about this at a high level.  
25 If you guys have detailed questions about the actual

1 programs that are inside the business plan, it's better  
2 I think for my colleagues to answer those questions.

3 So on page 15, what you're looking at is that  
4 when we went through the business planning process, what  
5 we asked the program folks to do was to create three  
6 different scenarios on their projected lending  
7 activities and the amount of revenues they will  
8 generate.

9 So what you'll see is under the fiscal '14 and  
10 '15 on the single-family program, they're expecting what  
11 we're going to do is that we're going to focus on the  
12 central case, which is the latter case. What you see is  
13 that -- I'm on page 15, that for the fiscal year '14 and  
14 '15, they're expecting to generate 927 loans in the  
15 moderate case, and in so doing, they're projecting they  
16 will generate \$2.5 million of fee income in that fiscal  
17 year.

18 One of the things that we want to also do is  
19 give you some historical context -- more on the past,  
20 I'm sorry -- on what that \$927 million -- 927 loans  
21 represent in terms of how it compares to the past. So  
22 you can see that at some point in the early 2000s we  
23 used to do about five to six thousand loans per fiscal  
24 year. So that 900 loans is well within reach, and I  
25 think it's certainly attainable. There's some certain

1 timing issues that I think Ken and Sheryl can address  
2 later.

3 And then moving on to the following fiscal year,  
4 you can see that that central case does increase  
5 slightly, so instead of 927 loans, they're thinking that  
6 now they can do about 1200 loans, and the income  
7 generated from that fiscal year would be closer to about  
8 \$3 million.

9 MS. FALK: I have a question. So we're going to  
10 go from 39 loans in this fiscal year to 927 loans next  
11 year; is that correct?

12 MR. HSU: That's correct.

13 MS. FALK: Okay. And we have the capacity to do  
14 that?

15 MS. CAPPIO: We've planned accordingly in the  
16 budget for both the high, medium and low case.

17 MR. HSU: Moving on to page 16. The other thing  
18 that is worth thinking about is that it's true that the  
19 single-family program is generating a current year  
20 income to the tune of the \$2.5 million we see on page  
21 15, but it's also going to generate loans receivable in  
22 the form of a subordinate loan that would get paid off  
23 if the homeowner were to refinance or pay off the loan  
24 in, let's say, five or ten years. So that's the loan  
25 that we sort of affectionately refer to as ZIP. This is

1 the downpayment assistance loan that we're making from  
2 the premium generator from this TBA program.

3 So what you see on page 16 is the combination of  
4 the current fee being received, plus the present value  
5 adjusted for some expectation of losses of this  
6 subordinate downpayment assistance loan. So you can see  
7 roughly that in the fiscal year '14/15, that that loans  
8 receivable is worth almost as -- is actually worth more  
9 than the income that we receive. So instead \$2.5  
10 million, we're now looking at about \$5.8 million. And  
11 likewise for 2015 and '16, that the loans receivable  
12 increases the value of what they're doing by about 130  
13 percent.

14 Again, I'm sure there are a lot of questions,  
15 and I think that I'm just looking at the numbers and how  
16 they look in terms of revenue generation. So if you  
17 look at page 17, what page 17 is now talking about is  
18 the multifamily side of the equation. So multifamily on  
19 the moderate case would suggest that we would generate  
20 about 20 loans that we think of as lender issuer. These  
21 are -- this is sort of the scenario in which we're  
22 making a loan and at the same time issuing the bonds to  
23 pay for the loans, so this is really sort of the main  
24 business line of the multifamily side. So this -- and  
25 again, this is the three loans that we just closed last

1 month.

2           And the fee that we would generate from the  
3 multifamily program in the current year is actually  
4 comparatively less than the single-family side, to the  
5 tune of \$1.5 million. But if you look at page 18,  
6 you'll see that the multifamily program, however, is  
7 generating a much bigger loans receivable, and that's  
8 because these loans tend to have a healthier spread and  
9 also they tend to last longer than the single-family  
10 side. So a very typical multifamily loan could last 15  
11 to 20 years or so, whereas if you look at any  
12 single-family MBS, the average life is probably closer  
13 to about I want to say eight to 12 years or so.

14           So on page 17 again, you could also get a little  
15 bit of historical context of how the moderate case of 20  
16 loans compares to what we've done in the past. And that  
17 gives you a sense that this is something we think we can  
18 attain.

19           So on page 19, so what I'm going to attempt to  
20 do here is bring the past and the future together to see  
21 if we can shed some light on today, for what we ought to  
22 focus on today. This is the -- this is the finale, I  
23 guess, the information that Matt and Janet have been  
24 yearning for.

25           So what I did here is I brought together the

1 past. And what is the past in this chart? The past is  
2 the -- if you see the green here -- I got color  
3 coordinated with my wife this morning -- the green  
4 columns here, these are the income generations from  
5 loans that are sitting inside our green boxes. So if we  
6 look at page 5 and then looking at the first nine months  
7 of the fiscal year thinking about income generation, now  
8 I'm looking at that green box, and I'm thinking about  
9 income generation for the next three fiscal years.

10 Okay.

11 So you can see that on balance, as we talked  
12 about earlier, it's somewhat steady but declining. And  
13 then in the gray is -- again, that green box has loans  
14 receivable, and what we assume here is that simply they  
15 will pay off when due. They pay off on maturity dates.  
16 And you can see that that too is also substantial but it  
17 is also declining.

18 So that's the past. On this chart those two  
19 things really in large part represent what the past is  
20 able to gift us today.

21 So what you're seeing in the future, which is  
22 what's in the yellow box. Okay. So I have four charts  
23 which shows the income generation from single family and  
24 multifamily. The first chart of each program shows the  
25 income received in a year. So what I did was I added

1 all the single-family income received in that year.  
2 Again, I'm ignoring the loans receivable, this  
3 downpayment assistance loan. If it were to pay off, it  
4 could pay off much further down the line.

5 So I added the current income generated from  
6 single family, the current income generated from  
7 multifamily, and there's also in here \$200,000 of new  
8 things that asset management is doing, I also put in  
9 there. They altogether add up to this \$4.3 million in  
10 the next fiscal year in yellow, so comes in as being  
11 sort of what we would generate in the near future.

12 One other thing to point out here is that in  
13 these dashed yellow, which is coming across each of the  
14 columns, what I'm also showing is the operating expenses  
15 today. So this number that you see here is slightly  
16 lower than the number that will be presented to you  
17 later, and that's because we have a certain number of  
18 vacancies. And as it turns out, we're working on  
19 filling about half of those vacancies, and the other  
20 half of the vacancies are to be determined. So my  
21 number here is slightly lower, as I explain in this text  
22 box here, because I have taken out half of the vacancies  
23 because we're not sure if we're going to fill them.

24 I did not inflate these numbers either, as far  
25 as the operating expenses. You can tell that they stay

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1 steady across the years. That's because there's just a  
2 lot of unknowns. Perhaps there will be raises. Perhaps  
3 there will be attrition. I just don't know enough to --  
4 to worry about that at the moment.

5 Now, what does this do in the sense that now  
6 that brought the past and the future together? What  
7 does this have to do with now? And the reason, in my  
8 mind, is that if you look at this chart and you say that  
9 if we're having this meeting a year from now and these  
10 yellow that you're seeing, these yellow boxes are  
11 substantially lower than what they are today, what I'm  
12 showing you today, what does that mean? Because as you  
13 can see that -- as you're going further along the fiscal  
14 years, you can see that the past is becoming less  
15 generous over time. And we really are starting to  
16 become more and more dependent on what the yellow will  
17 do for us three years from now and four years from now.

18 And that's why I say that if you bring these two  
19 pieces together, the past and the future, you get some  
20 clarity that, jeez, what you really have to do today is  
21 making sure that these yellow boxes show up tomorrow,  
22 and you really need to get back into thinking how to  
23 generate that income. Now, since I'm a dollars and  
24 cents guy, I won't make any statements about what kind  
25 of lending we ought to be doing, but I agree, as some

1 people said at the last meeting, that we should be a  
2 lender with a purpose.

3 But having said that, we need to also be  
4 overlaying that idea, in my mind -- this is a little bit  
5 me speaking now, so that a year from now we should be  
6 able to look back and say, well, how did we do on that  
7 yellow box, because, again, we are starting to become  
8 more and more dependent on that yellow box and that  
9 past, the generosity of the past, is -- it is working  
10 slowly lower and lower.

11 So that's my presentation. I'll take any  
12 comments.

13 The last couple pages, which I won't go into,  
14 these couple pages arise from a couple questions that  
15 Dalila had. They deal with mostly about sort of our  
16 recent history. And I heard some questions about the  
17 past. Some people do want to think about the past, and  
18 I think I won't go over them, but it is at your leisure  
19 if you'll look at them, you'll see that we have also  
20 done a lot in the past four years.

21 CHAIRPERSON JACOBS: The edits you made to this  
22 thing I guess this week are immensely helpful. It  
23 answers a lot of my questions.

24 MR. GUNNING: I guess the question I have, Tim,  
25 is we have to examine what our lending activity is if

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1 the boxes trend downwards. And that's the question.

2 MS. CAPPIO: I, through the Chair, I think  
3 that's right. What we'll be doing over the next year is  
4 the market is really different. Credit is tight.  
5 Interest rates are low. We have to fit in somewhere, or  
6 we still fulfill our purpose and yet make sure that  
7 we're still sustainable. And it's a new order. It's a  
8 new order of things that we're -- there's a lot of  
9 unknowns.

10 MS. FALK: Well, first I'd like to commend you,  
11 Tim, for putting this in a way that, you know, really  
12 gives us a historical perspective and we can really see,  
13 you know, what we have to focus on.

14 I would like to make a request, however, and I  
15 don't know if we're moving into the budget yet, but in  
16 order for me to feel comfortable approving a budget, I  
17 need to see the revenue on the same page with the  
18 expenditures, because I don't think you can have one  
19 without the other. And in the same way that you have  
20 budgeted and actuals for the last year and then the  
21 projection for the future year, I'd like to see the same  
22 thing with -- with the revenue.

23 And that way, when we get to next year -- and I  
24 promise I'll be here for that, requesting this -- we get  
25 to next year, we can see, oh, here's what our

1 projections were for our revenue for '14/15, and then we  
2 can see how we've done against it. Because it's kind of  
3 hard to evaluate it without knowing what we adopted or  
4 what we were even projecting, because all the charts  
5 don't get adopted as part of an official budget, I don't  
6 believe. You know, it helps us to understand it, but I  
7 would really like to see it as part of the, you know --  
8 we've got ten pages of broken-down expenses, but I would  
9 really like to see some broken-down revenue, too, to go  
10 along with it.

11 MR. HSU: Okay. I can certainly work on that.  
12 I think that --

13 MS. FALK: I think you've got it all here, you  
14 just need to put it into this format. Yeah.

15 MR. HSU: Okay. I think some of these numbers  
16 that we have that drives page 20 has some of that. But  
17 since you revealed your propensity for page 16, I think  
18 I know what to do.

19 MS. FALK: Page 11.

20 MR. HSU: Eleven, okay, sorry. Page 11. Yeah,  
21 I think that we have information to be able to show you  
22 what you -- it's all here, like I said.

23 MS. FALK: Is it also -- you know, I'm used to  
24 looking at budgets where you see income and expense  
25 statement, then you also see a balance sheet, which is

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1 really what you're talking about as your cash position.  
2 Is it possible to generate that for the Agency, or is  
3 that really complicated?

4 MR. HSU: We can try. We can try. I think one  
5 of the things that we struggle with, which is part of  
6 the reason why we show page 3, is that that entity that  
7 we think of as the green box is a loosely -- it's like a  
8 loose federation in the way that it's not a separately  
9 audited entity. So then what we have to do sometimes is  
10 to pull together various pieces to make that green  
11 entity.

12 MS. FALK: Yeah, okay. Then maybe we can  
13 just -- instead of a whole balance sheet, because I know  
14 that that would be really complicated with all of the  
15 different bonds that are outstanding -- I'm looking for  
16 the page where you had the cash position and what was in  
17 it -- and just translate those into numbers instead of  
18 a -- well, it was -- you had one where it showed what  
19 your cash -- the cash balances were, kind of pages 12  
20 and 13. Just put those in numbers on a page that  
21 becomes again part of the budget statement, that  
22 that's -- so we can see a statement of our cash position  
23 each year and kind of know where it is.

24 CHAIRPERSON JACOBS: And also just setting  
25 targets for lending activities, for new lending

1 activities. I mean we're fortunate that we have the  
2 legacy stuff, but I think -- and again, budgets, it's a  
3 goal. And we need not think of it so much as the way  
4 government budgeting is done, where we know exactly what  
5 we're going to spend on these things, but let's target  
6 the revenues and set some goals for ourselves.

7 MS. SOTELO: So as part of the budget  
8 discussion, Claudia, I'm wondering -- you know, there's  
9 a tremendous increase in the single-family activity from  
10 39 loans up to 927 loans, which then supports the yellow  
11 box that you have on page 20. So that's a -- that's a  
12 huge increase. And then on the multifamily side, you're  
13 going programmatically from three issuer and two conduit  
14 loans to 20 and six. Right? So programmatically and  
15 operationally, that's a huge leap between, you know,  
16 last year and this year.

17 So in our budget discussion -- and this is just  
18 a precursor, I guess, but in our budget discussion, can  
19 we talk about what happens operationally, what that  
20 means in terms of the number of staff people that will  
21 support that activity, and, you know, what controls will  
22 you have during the fiscal year to check in to see how  
23 we're doing in terms of that volume?

24 MS. CAPPPIO: Sure. And I guess this -- we'll  
25 hold that, if we can, because right now, we're in the

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1 middle of the strategic business plan. If you want to  
2 move to the budget, we would have not discussed the  
3 strategic business plan, so I'm just thinking --

4 CHAIRPERSON JACOBS: I think we can run them  
5 concurrently.

6 MS. CAPPPIO: Okay. So do you want the budget  
7 presentation right now and then you discuss them  
8 together?

9 CHAIRPERSON JACOBS: Yeah, I think it makes  
10 sense to do it altogether. And frankly, on approving  
11 the budget, I almost think we ought to approve the  
12 budget and the business plan together and it may be that  
13 we do it at the next meeting with -- you know, with the  
14 goals set out in a numeric table. If that makes -- I  
15 mean unless --

16 MS. CAPPPIO: We operate a June 30 --

17 CHAIRPERSON JACOBS: We have to have it done by  
18 then.

19 MS. CAPPPIO: Well, we could have a special  
20 meeting.

21 CHAIRPERSON JACOBS: Well, we could approve  
22 subject to seeing that table in there. I think that  
23 might be --

24 MS. SOTELO: Why don't we have a joint  
25 discussion and see where we are at the end of that

1 discussion to see whether -- how many outstanding items  
2 there are.

3 CHAIRPERSON JACOBS: It's really goal setting on  
4 both sides, and I think certainly on the expense side we  
5 understand it, and I think it would be good for us to  
6 put those tables into a fixed set of goals, if you will.

7 MS. CAPPPIO: Okay. So right now, we're on item  
8 5, and I think the Board wants to have the presentation  
9 on item 6, which is the draft budget, and then we pull  
10 them altogether. I will note to you, even if you want  
11 to -- if you do choose to adopt them, we do have two  
12 separate resolutions that we --

13 CHAIRPERSON JACOBS: Correct.

14 MS. CAPPPIO: Okay. I just wanted to be sure.

15 --o0o--

16 **Item 6. Discussion, recommendation and possible action**  
17 **regarding the adoption of a resolution approving the**  
18 **Fiscal Year 2014/2015 CalHFA Operating Budget.**

19 **(Resolution 14-06)**

20 MS. CAPPPIO: So I'll introduce item 6, which is  
21 the proposed budget for fiscal year '14/15. And Jackie  
22 Riley will make the presentation, since you've all  
23 already reviewed it.

24 MS. RILEY: Good morning.

25 I had sent last week this budgeted versus

1 actuals as we've been taking a little bit of a historic  
2 look back on some of our expenditures and numbers of  
3 loans and all of that. So with this, you can see we put  
4 in the OPOB, which is the other postoperative benefits,  
5 and it is shown as a projection. It's not budgeted for.  
6 It's not expensed out. So it's in there, and then it's  
7 taken out.

8 So our projected actuals for the year, we  
9 project that we're coming in at 37 to 38 million. It's  
10 a little bit more than last year, and I'll show you the  
11 next chart here, the little bar graph that last year was  
12 a good year as far as expenses. This year we've had  
13 some benefit increases, and we've also had a 3 percent  
14 increase for those employees who were at the top of  
15 their salary range. And since we have a lot of seasoned  
16 employees, that was another half million dollars that  
17 was not budgeted for last year but has been absorbed.  
18 That's generally why the cost we believe will come in a  
19 little bit higher this year.

20 The next chart, I thought -- we decided -- you  
21 know, we've been slicing and dicing and looking at  
22 everything in the Agency for the last several months,  
23 and so we decided to come up with this chart to show  
24 kind of where the projected expenses are by program.  
25 And we decided even though portfolio management isn't a

1 program -- it is all that back office legacy stuff, but  
2 it still takes a lot of resources. And so this is kind  
3 of -- this is the Agency's entire projected budget with  
4 all of the business operations included, you know, that  
5 support each of these program units.

6 So it's kind of an interesting look. You know,  
7 you're looking to see what's eating up the most  
8 resources, and in some ways, you know, there's no one  
9 that's -- they're all sort of in some ways equal. So I  
10 thought I would present that so you can see that. I  
11 don't know that you have a copy of that. That was  
12 something we just kind of came up with at the end of  
13 last week to just kind of look at what those business  
14 units or program units were costing us.

15 CHAIRPERSON JACOBS: This is very helpful. I  
16 think again, you know, going forward, it would be  
17 helpful to have this match with, you know, what are the  
18 revenues generated by these --

19 MS. CAPPPIO: Right. Exactly. We get that.

20 MS. RILEY: So that's -- these are my little  
21 slides. The projected budget this year, which is -- is  
22 the 42.8, which is a little bit higher than we had  
23 wanted to come in at, but we went through every unit  
24 very closely, and we do have a little bit of contingency  
25 money in there. We have started out -- the last couple

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1 of years we've had an estimated 40 vacancies a year. We  
2 eliminated 13 of those. We have come up with 27  
3 vacancies. We're actively recruiting right now for  
4 probably about ten to 12 of those vacancies. Beyond  
5 that, they've been spoken for, but we're not really sure  
6 that they're going to be utilized, because this year we  
7 started in on doing sort of a wholistic look at the  
8 organization.

9 And I guess before I get into that I also want  
10 to say that the Governor, of course, his May Revise was  
11 announced this morning, and there is going to be a  
12 2-percent increase for a lot of our employees. So we  
13 did not build that into that 42 million because we  
14 weren't sure if it was going to happen or not. And we  
15 also have an increase in our CalPERS, the employer's  
16 share of CalPERS, that will go into effect in January,  
17 and we're not sure what that number is.

18 So we built in, you know, a little additional  
19 money in here through our vacancies. And please always  
20 remember that if we don't fill positions, if we don't  
21 spend money, it's ours. It just reverts back and goes  
22 towards next year's budget, so it isn't lost. It  
23 isn't -- it doesn't go away.

24 So with that, we began to take what I kind of  
25 consider a wholistic look at, you know, our business

1 operations, and we've kind of determined that those  
2 business operations are really based on our old model of  
3 doing business, and we really need to restructure and  
4 redefine and retool, though, how we're doing business  
5 and how we're allocating positions and resources and all  
6 of that. So this is the first time that we've really  
7 looked at it so intensely.

8 And with that, when you get to the people side,  
9 which if you look at the budget, the people side of  
10 things is really the place, you know, that kind of makes  
11 or breaks you as far as saving money. And so we are  
12 going at this from a position of looking at our  
13 performance management.

14 I know, Dalila, you had mentioned that, that you  
15 were hoping that whatever our strategic things, you  
16 know, filtered down to performance management. And  
17 we're looking at workload standards for all the units.  
18 We've gotten some information from the private sector,  
19 also from other HFAs, and trying to figure out, you  
20 know, where we're off a little bit; what can we do  
21 better; what are they doing differently than we're  
22 doing; is it technology; is it something else? So some  
23 of the units we know a little bit more about than  
24 others. That's why some of the positions may or may not  
25 ever get filled if we can determine, okay, they're doing

1 something different and what if we can do it that way  
2 too?

3 So we're also looking at managing our talent,  
4 you know, how do we grow talent, and how do we recognize  
5 it, and how do we train it? That leads to succession  
6 planning. A couple of the positions, two or three, that  
7 are in that budget are really for succession planning.  
8 We begin to look at units, and you can see there's lot  
9 of good people, a lot of hard-working people, but you  
10 need to add something right here. You know, they're  
11 missing this little piece or that knowledge base or  
12 something.

13 So we're going to be doing a few strategic hires  
14 that will hopefully, you know, ensure the long run and  
15 the smooth transition as people retire. So we're  
16 looking at attrition. There are several positions that  
17 we know people will be retiring from, and they will not  
18 be refilled.

19 We're also -- you know, we have office space in  
20 Culver City and in Sacramento and in a West Sacramento  
21 location. And last year at this time we were really  
22 hopeful of using the extra space for PBCIA, but that has  
23 not materialized, and we're not really sure we can ever  
24 count on that, so we're looking at subletting some of  
25 our space.

1           The other thing that we've been doing just  
2 internally is looking at how we manage our records, how  
3 do we do that more efficiently, how can we save time but  
4 also -- so we, you know, are implementing a scanning  
5 facility that we hope will keep our records current but  
6 also maybe take some of our records from storage and get  
7 them out of storage, where they're more accessible,  
8 because we have a lot of paper records from legacy,  
9 years past. So we're looking and trying to come up with  
10 ways of doing things more efficiently with less.

11           And I guess lastly I'll say on the balance sheet  
12 of the Agency we have a lot of accrued vacation that  
13 came about as a result of furloughs and all that, and so  
14 it shows up on the balance sheet as a liability, so  
15 we're going to this month be sending out for those  
16 people who are over the maximum of 640 hours a year,  
17 making them come up with some vacation plans to start  
18 reducing that amount. The Governor also authorized up  
19 to 20 hours of vacation buy-back for managers and  
20 supervisors for Unit 9 employees, of which we have a  
21 few. And most people that are eligible are taking  
22 advantage of cashing out that little 20 hours. So that  
23 helps -- you know, if you start, you got to start  
24 somewhere, so if you start with that just to, you know,  
25 start getting your balance sheet a little bit more in

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1 order and start getting rid of some of those liabilities  
2 when people retire.

3 If you have any questions, I can answer them. A  
4 lot of the budget is really tied into the strategic  
5 plan, so I guess if you have questions I'd be glad to  
6 answer anything. I did send you copies of org charts so  
7 you can see how we're organized.

8 CHAIRPERSON JACOBS: Thanks, Jackie.

9 Does anyone have any questions on the budget?  
10 Jonathan.

11 MR. HUNTER: Yeah. Is this the time to ask  
12 questions on budget detail?

13 MS. RILEY: Sure.

14 MR. HUNTER: So I'm looking at page 137 and, you  
15 know, the REO disposition. And if I -- that was where I  
16 also started really thinking about this, and I wanted to  
17 make sure my assumptions are correct. So the -- you're  
18 going from one housing finance associate to 12 under  
19 disposition and from 14 down to six under  
20 administration. I'm assuming this is shifting people  
21 from --

22 MS. RILEY: Actually, during midyear, portfolio  
23 management took over some of what had been done in loan  
24 servicing, so there are now 13 what are called SPOCs  
25 that are -- that are required by HOBAR, single point of

1 contact for loans that are in default that maybe you can  
2 do loan modifications for. So our REOs -- our REOs are  
3 going down. Our short sales are going down. But right  
4 now, we have 13 positions that are doing loss mitigation  
5 and really loan mods. And we have, you know, KYHC and  
6 all that, so that was transferred from the servicing  
7 over. And that happened around the beginning of the  
8 year.

9 MR. HUNTER: Yeah, I guess my question is more  
10 I'm assuming that some of the shifting is the  
11 reassignment of responsibilities. That doesn't mean  
12 we're laying off six people and hiring 12.

13 MS. RILEY: Oh, no. No, no, no. We have hired  
14 no new employees in that area.

15 MR. HUNTER: Okay.

16 MS. RILEY: And it really is reallocating  
17 people. And what we're hoping for -- because obviously  
18 the legacy issues in portfolio management are getting  
19 smaller and smaller, which is a good thing, but we're  
20 hoping our lending program in single family picks up so  
21 those people can matriculate and transition back to  
22 lending, which is where most of them are from. Because  
23 in days past, we did a lot of lending and very little  
24 back office, and now we've been doing more back office  
25 than the lending.

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1 MR. HUNTER: Thank you.

2 MS. SOTELO: Just to be clear on that item,  
3 you're going from 27 field positions to 33 authorized  
4 positions and 36 proposed positions?

5 MS. RILEY: Where are we looking at?

6 MS. SOTELO: The total column under portfolio  
7 management on 137 -- 35, I'm sorry, those positions. So  
8 you are going to be hiring eight people?

9 MS. RILEY: Portfolio management shows 33 --

10 MS. SOTELO: Total portfolio management 27, 33  
11 and 35.

12 MS. RILEY: I believe those numbers actually, we  
13 have -- of the positions that were originally allocated  
14 last year for the portfolio management, we -- like I  
15 said, we moved over from loan servicing, so the number  
16 has gone up, but loan servicing's number has gone down,  
17 so they balance themselves out. And actually there are  
18 probably less positions between the two units than there  
19 were last year.

20 MS. SOTELO: Yeah, your servicing number is 84  
21 and a half filled and 90 proposed.

22 MS. RILEY: No. Servicing is --

23 MS. SOTELO: For all servicing.

24 MS. RILEY: For -- oh, for -- that's all -- if  
25 you look at that 90 --

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1 MS. SOTELO: That's total servicing.

2 MS. RILEY: -- that's single family.

3 MS. SOTELO: Right. Okay. So total servicing  
4 is 35, 47 and then 30.

5 MS. RILEY: Right. So you can see that the  
6 number from loan servicing went down considerably, by  
7 17. And some of those are the vacant positions that went  
8 away. Because we only increased portfolio by two over  
9 last year by transitioning that over.

10 CHAIRPERSON JACOBS: But the overall numbers, I  
11 think, still -- the trend is to the -- 2014/15 down to,  
12 what is it, 300 employees more or less?

13 MS. RILEY: Are you talking overall?

14 CHAIRPERSON JACOBS: Overall.

15 MS. RILEY: Overall we have been, you know, over  
16 300. This year it's 285 permanent positions. And we're  
17 hoping to come in next year at less than that.

18 MS. SOTELO: So this goes back to, I guess, my  
19 question back to the, you know, 900, increasing the  
20 production on the single-family side and increasing the  
21 production on multifamily.

22 MS. CAPPIO: Sure. So as Jackie has just  
23 relayed, there's a big connection between portfolio  
24 management and loan lending. The modifications that  
25 we've had to do in our portfolio have a lot of similar

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1 skill sets to loan origination and underwriting, both  
2 strong underwriting skills. So as the loan -- the  
3 portfolio management requirements and demands have  
4 decreased, those people will be redeployed to lending,  
5 back to lending, and we have a plan to do that,  
6 depending on the demand that we see in single-family  
7 lending.

8 As for multiple family, I will note a lot of our  
9 current activity in the last couple years has been via  
10 the Mental Health Services Act, the lending we did on  
11 the permanent supportive housing. And that is winding  
12 down. So again, the timing is serendipitous in terms  
13 redeploying those people for the lending that we would  
14 like to do, that we aspire to do.

15 So we think this fiscal year with the employees  
16 that we've got, we can make those transitions as we need  
17 to during the year to accommodate increased lending  
18 activity for both single family and multiple family.

19 MS. FALK: And come out with a net zero for  
20 hiring new employees.

21 MS. SOTELO: That's very creative. That's --  
22 that's really good. I commend you for doing that.

23 MS. CAPPIO: Timing is everything, as they say.

24 MS. SOTELO: Yeah. So in terms of keeping track  
25 of the volume, right, and checking in, is there a plan

1 to check in to find out whether you're on track to  
2 increase production by that 927?

3 MS. CAPPPIO: Check in with the Board or --

4 MS. SOTELO: Or just what is your management  
5 plan or operational plan to see that you're on track?

6 MS. CAPPPIO: Sure. We -- the strategic plan  
7 that we -- that you all hopefully will adopt today is a  
8 living document that we use as senior staff quite  
9 frequently, and at least once a quarter we check in with  
10 regard to the dates, the status of the program and the  
11 fulfillment of the actions. And so it's a very live  
12 kind of an effort throughout the year.

13 And I will note that it's been our practice to  
14 check in with the Board about how we're doing on those  
15 at midyear, which is January of '15. If the Board wants  
16 to do that prior, I will be glad to do that.

17 MS. RILEY: The other thing that I have noted is  
18 about monthly there are some status reports on how many  
19 loans, how many new -- people are really -- the program  
20 areas are really keeping track of what they're doing.  
21 And they know when the -- you know, on single family,  
22 how many loans are falling out, why they're falling out,  
23 so we're getting some really good statistics that are  
24 helping manage and manage, you know, from the budget  
25 standpoint, you know, from the people standpoint and,

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1 you know, are you going to need somebody. You know, are  
2 you going to -- Ken has numbers that will show up in the  
3 strategic plan and if there's this many loans, here's  
4 how many people he needs.

5 MS. SOTELO: I've been very impressed with the  
6 team and Ken in particular in terms of saying, you know,  
7 in order to achieve 927, we need to do 20 loans a week,  
8 and, you know, they have implications for how that  
9 happens. And so it's good to see that you're tying that  
10 goal to the operating budget.

11 CHAIRPERSON JACOBS: My question is do you have  
12 anything from us that you need in order to be flexible  
13 enough to adapt?

14 MS. RILEY: With this budget, if this budget is  
15 approved, yes. I think that, like I said, we have some  
16 contingency in there. I'm hoping that next year at this  
17 time we'll be seeing that we didn't expense all that we  
18 had because our goal is really how do we do things more  
19 efficiently for less? And we want to use all the  
20 resources we have. And we do have some attrition --  
21 because a lot of our employees have been there a long  
22 time -- we don't really plan on filling. We plan on  
23 reassigning or, you know, moving people around. So  
24 that's our goal.

25 CHAIRPERSON JACOBS: Any further questions from

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1 the Board?

2 Does anyone want to move to approve the budget?  
3 Subject to us getting our little table.

4 MS. FALK: I make a motion to approve the  
5 budget, which I assume is the pages --

6 MS. CAPPIO: I want to know what you're  
7 exactly --

8 CHAIRPERSON JACOBS: Item 6, which is --

9 MS. FALK: Page 129.

10 CHAIRPERSON JACOBS: 129.

11 MS. FALK: Subject to taking the information in  
12 Tim's charts, particularly page -- what's on page 20,  
13 maybe. Is that the right page? And then putting that  
14 into number form and putting in the revenue side.

15 MS. CAPPIO: So that revenues and expenses  
16 appear on one summary sheet for '14/15.

17 MS. FALK: That's what we're approving. So  
18 we're not just approving this list of expenses, we're  
19 also approving the revenue that is to be generated.

20 CHAIRPERSON JACOBS: Understanding full well  
21 that some, you know, loan prepayments we can't really  
22 predict.

23 MS. FALK: Right. Exactly.

24 MR. JAMES: I'm sorry, Mr. Chair, may I ask a  
25 question for clarification? Would it be the Board's

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1 pleasure to adopt the budget but then ask that the staff  
2 return with the information that you asked for, at which  
3 point you could modify the budget?

4 MS. FALK: Yeah, I want to make it clear that  
5 we're approving the revenue as well the expenses; we're  
6 not just approving the expenditures.

7 MR. JAMES: Okay.

8 MS. SOTELO: We have a -- don't we have a  
9 resolution on page 143, which is the resolution that  
10 we're adopting?

11 CHAIRPERSON JACOBS: Yes.

12 MS. SOTELO: Why don't we turn to that and take  
13 a look at that to see whether we need to amend that or  
14 adopt as resolved.

15 CHAIRPERSON JACOBS: I think the resolution is  
16 fine, but.

17 MR. JAMES: Yeah, I think that the resolutions  
18 accomplish the Board's goals. I think what I'm hearing  
19 from Ms. Falk is that -- and other members of the Board  
20 is that you want information presented in a different  
21 way having to do with revenues and expenses. So I guess  
22 my only question is did you want to review it in that  
23 revised format and have the budget -- assuming you  
24 approve it today, but have it come back to you for  
25 review and --

1 MS. FALK: Well, it would be nice to see it  
2 again, but I think since you need to have it approved, I  
3 guess part of the problem for me is that I don't think  
4 of a budget as just the expenditure side, and that the  
5 real important thing is the relationship between the  
6 income and the expenditures, not just the expenditures.

7 So that's why I really feel it's really important to  
8 see both and to see what the bottom line is. So in  
9 adopting -- the resolution just says the operating  
10 budget attached, which is these pages here, which --

11 MS. CAPPPIO: Does not contain --

12 MS. FALK: -- does not contain the revenue side.

13 CHAIRPERSON JACOBS: The content, we're well  
14 aware, that it exists and is --

15 MS. FALK: And it's the content that's in those  
16 charts. It just needs to be translated into this  
17 format.

18 MR. HSU: So my proposed compromise, I can run  
19 back to the office real fast to produce the chart and  
20 bring it back, so you just all talk slowly for the next  
21 30 minutes.

22 MS. FALK: I don't -- I hate to have you do  
23 that. Is there some way we can approve it that we can,  
24 like, send it around and just everybody says okay? I  
25 mean, we've got the information pretty much attached.

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1 CHAIRPERSON JACOBS: Let's move to approve the  
2 budget and then confirm the additional exhibit at our  
3 next meeting.

4 MS. FALK: Okay.

5 MS. SOTELO: An operating budget is an operating  
6 budget, and, you know, if we're comfortable with the  
7 staff levels and the operating budget as it's presented,  
8 that's one action that we can take. In terms of the  
9 revenues, there's nothing to -- I mean, we can have it  
10 presented, but there's really nothing to approve on the  
11 revenues because it's projected. It's not actuals.

12 CHAIRPERSON JACOBS: Correct. It's a matter of  
13 goal setting and just how we look towards as a business  
14 plan setting some numbers to the business plan so we'll  
15 work towards those goals. I think that's really -- I  
16 think we've all reviewed the business plan, too, and  
17 this is to further the business plan along, I think is  
18 the intent here.

19 MS. FALK: Well, I just want to clarify one  
20 thing, though. If Tim's projections had shown that we  
21 were going to be in a big deficit gap this year, then I  
22 wouldn't approve the operating budget as it is, and you  
23 probably wouldn't want us to do that, so that's why I  
24 think they have to go together.

25 CHAIRPERSON JACOBS: Does anyone want to make a

1 motion?

2 MS. FALK: I'll make to motion to approve it.

3 CHAIRPERSON JACOBS: Do we have a second?

4 John's microphone isn't on.

5 MS. SOTELO: My microphone is on. I'll second.

6 MR. HUNTER: I just wanted to see if I could  
7 state this a little different way in terms of how I  
8 understand the basic question that Janet is raising.  
9 It's that we're being presented with an operating  
10 budget, and that operating budget is clearly based on  
11 some revenue assumptions. And it would just be  
12 helpful -- I mean, we've walked through all those  
13 revenue assumptions with all those boxes and charts, but  
14 it would helpful to see them in numerical format  
15 alongside.

16 And then I think it's important to recognize  
17 that we're not necessarily approving the revenue  
18 assumptions as an operating revenue, but we are saying  
19 that that is clearly the goal and the assumptions. As  
20 reports come in during the year, if we see that we're  
21 not meeting our assumptions, we know we have to adjust  
22 what we're doing on the expenditure side. So that's --  
23 I think that's what we're trying to get at.

24 CHAIRPERSON JACOBS: Elegantly stated.

25 MS. RILEY: We know we need to adjust, too, on

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1 our side.

2 CHAIRPERSON JACOBS: So we have a motion on the  
3 table to approve the operating budget.

4 MR. HUNTER: And I'll second that motion.

5 CHAIRPERSON JACOBS: And then at the next  
6 meeting we'll have the exhibit.

7 JoJo, call the roll.

8 MS. OJIMA: Thank you.

9 Ms. Caballero.

10 MS. CABALLERO: Aye.

11 MS. OJIMA: Ms. Whittall-Scherfee.

12 MS. WHITTALL-SCHERFEE: Aye.

13 MS. OJIMA: Ms. Falk.

14 MS. FALK: Aye.

15 MS. OJIMA: Ms. Gunn.

16 MS. GUNN: Aye.

17 MS. OJIMA: Mr. Gunning.

18 MR. GUNNING: Aye.

19 MS. OJIMA: Mr. Hunter.

20 MR. HUNTER: Aye.

21 MS. OJIMA: Ms. Carroll.

22 MS. CARROLL: Aye.

23 MS. OJIMA: Mr. Prince.

24 MR. PRINCE: Aye.

25 MS. OJIMA: Ms. Sotelo.

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1 MS. SOTELO: Aye.

2 MS. OJIMA: Mr. Jacobs.

3 CHAIRPERSON JACOBS: Aye.

4 MS. OJIMA: Resolution 14-06 has been approved.

5 MS. RILEY: Thank you very much.

6 CHAIRPERSON JACOBS: So let's jump back then to  
7 the strategic plan, too, because I believe we are  
8 approving the plan as well. So I think -- does anyone  
9 have additional comments on the plan, other than the  
10 fact that we should be, again, tying into specific goal  
11 setting?

12 I guess I have one comment on this before we  
13 jump into it. It's really I guess the elusive question  
14 of what is our permanent source for funding for  
15 affordable housing in this state and our quest to find  
16 that?

17 MS. CAPPIO: That's a good question.

18 CHAIRPERSON JACOBS: I know we have some  
19 additional informational items on the recent discussion  
20 in the Legislature, but -- would you want to address  
21 that now, or --

22 MS. CAPPIO: I can. I mean, I think we have to  
23 first reflect on the fact that this Agency would not be  
24 necessarily a direct beneficiary of that funding, that  
25 we have always relied on independent sources of revenues

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1 through the sale of tax-exempt instruments. And so we  
2 have contracted and entered into interagency agreements  
3 for certain aspects of additional funding. Prop 1C, we  
4 administered the downpayment assistance program. There  
5 are various proposals out there. There's a bill in the  
6 Legislature, SB 391, that would create a fee on  
7 recordation of documents pertaining to -- well, on  
8 anything, actually, other than the sale of single-family  
9 homes. And that is paused at this point.

10 The administration has not taken a position on  
11 any permanent source of funding or revenue stream,  
12 although I think there's acknowledgment that it's an  
13 important piece of the puzzle.

14 So we are going to get to the cap and trade  
15 proposals. It does remain a big issue.

16 CHAIRPERSON JACOBS: Does anyone have any  
17 questions or comments about the business plan?

18 MR. HUNTER: I had a comment and -- I think it's  
19 a comment. I don't think it's a question, but it kind  
20 of goes back again to how we're seeing the numbers  
21 presented. I was glad to see in the business plan that  
22 there are specific targets for generating revenue that  
23 we've just been talking about. So if I'm looking at --  
24 in the plan, strategy No. 7, revenue targets for first  
25 mortgage loans and for DPA loans. And the thing that

1 was -- that I found a little -- I realize it's hard to,  
2 you know -- we're kind of looking at the numbers in  
3 different ways, so when we saw the report earlier, we  
4 looked at the number of loans, and then we saw some  
5 estimate of what the fee would be generated. And I  
6 just -- I was glad to see that the revenue -- that the  
7 goal for the staff is to hit a revenue number and not a  
8 loan number, because it may be that we get five loans  
9 that raise the whole revenue, as opposed to getting 20  
10 loans to raise the whole revenue.

11 But at some point it just, you know, would be  
12 interesting to see kind of what that -- how the averages  
13 go over time in terms of what's the average size of loan  
14 that we're actually doing. I would be interested in  
15 seeing that. So just a report going forward, it would  
16 be interesting to see -- I would be interested in seeing  
17 that. I just would say, again, that I was glad to see  
18 the actual revenue targets in the -- in the plan.

19 CHAIRPERSON JACOBS: Janet.

20 MS. FALK: I'm going back to what Tim presented  
21 to get us -- to help us understand the picture that  
22 these legacy fees and things are going down, and we're  
23 really going to have to generate some more revenue, and  
24 I really appreciate that items 6 and 7 in the business  
25 plan talk about those things. However, I think the

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1 most -- it looks to me like they're mostly looking at  
2 things that kind of sort of really currently exist or  
3 sort of are out there, we're just not taking advantage  
4 of them.

5 But I'd almost like to see a new item of  
6 thinking outside the box. What other areas can we go to  
7 in the future? They may not -- it may not happen in  
8 this next year, but to start really thinking about, you  
9 know, creating a multiyear plan of where -- what are  
10 some other opportunities? What can we do in a creative  
11 way? Because that revenue that we have to generate is  
12 really key. And, you know, playing around the edges  
13 where we currently are may not get us to where we need  
14 to be.

15 MS. SOTELO: Yeah, I would totally support that,  
16 adding that as a goal for the organization, to look at  
17 diversifying our income or our program income and making  
18 that maybe an operational goal, that staff spends time  
19 and, you know, gets acknowledgment for spending that  
20 time to look at it and reports back to us as part of the  
21 plan. So I like that. I like -- you know, if staff is  
22 open to it, I think it would be a nice goal to add.

23 CHAIRPERSON JACOBS: So it's a slight  
24 restatement of our goals, but I think it --

25 MS. CAPPIO: Yeah, I think we can incorporate

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1 that. It's understood.

2 CHAIRPERSON JACOBS: Any other comments about  
3 the plan?

4 MR. PRINCE: Yes, I'm sorry. So if I heard you  
5 correctly, Tim, the \$40 million of operating -- one-year  
6 operating is pretty substantial, as well as the  
7 collateral is about \$50 million, so there's \$90  
8 million -- I don't know, I'm a developer -- at all  
9 times. It sure seems like that's a great opportunity  
10 to -- yes, it's very safe the way it is, but maybe  
11 there's a higher purpose to be using those dollars in a  
12 thoughtful way. So I would support also looking at new  
13 initiatives, new investments, to generate revenue but  
14 also take advantage of the funds that the Agency has. I  
15 think that's a new strategic line item for you, Claudia,  
16 isn't it?

17 MS. CAPPPIO: Yeah. I'm just looking about where  
18 to put it in the best way. Yeah. We have for the one  
19 in six, we have the C. Six C, is to create a multiyear  
20 plan to identify the use of certain funds that we have  
21 to look at how we can add value to the lending that we  
22 do do, by the use of sort of outside-the-box thinking  
23 about the use of these funds that we've got. We can  
24 either add a D or modify C.

25 And similarly with seven, we have some specific

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1 things that we're going to do, as you requested, for  
2 instance, mortgage products to non-first-time  
3 homebuyers, the CalVet, working more closely with  
4 CalVet. But we can easily add, I guess, I, review other  
5 programs and lending products, you know, that we could  
6 use in the future. We could modify that accordingly.

7 MS. SOTELO: How about doing it as part of the  
8 goal, right? So the way this is organized is there's  
9 the goal for the organization and you have four goals,  
10 so if you add it as a fifth goal, and then the key  
11 strategies, like you were trying to do right now, just  
12 fit it into different key strategies. But the goal  
13 itself is an affirmative goal of diversifying, you  
14 know -- think creatively about diversifying income. I  
15 mean, we can -- we can come up with a phrase,  
16 phraseology for it.

17 MS. CAPPIO: Sure. That would be acceptable as  
18 well. That's an overarching --

19 MS. SOTELO: That's an overarching goal that's  
20 manifested through key strategies in the different  
21 areas.

22 CHAIRPERSON JACOBS: Does anyone want to move  
23 for approval of this subject to the addition of the new  
24 goal?

25 MR. GUNNING: So moved.

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1 CHAIRPERSON JACOBS: Do we have a second?  
2 MR. PRINCE: I'll second.  
3 CHAIRPERSON JACOBS: JoJo.  
4 MS. OJIMA: Thank you.  
5 Ms. Caballero.  
6 MS. CABALLERO: Yes.  
7 MS. OJIMA: Ms. Whittall-Scherfee.  
8 MS. WHITTALL-SCHERFEE: Yes.  
9 MS. OJIMA: Ms. Falk.  
10 MS. FALK: Yes.  
11 MS. OJIMA: Ms. Gunn.  
12 MS. GUNN: Yes.  
13 MS. OJIMA: Mr. Gunning.  
14 MR. GUNNING: Yes.  
15 MS. OJIMA: Mr. Hunter.  
16 MR. HUNTER: Yes.  
17 MS. OJIMA: Ms. Carroll.  
18 MS. CARROLL: Yes.  
19 MS. OJIMA: Mr. Prince.  
20 MR. PRINCE: Yes.  
21 MS. OJIMA: Ms. Sotelo.  
22 MS. SOTELO: Aye.  
23 MS. OJIMA: Mr. Jacobs.  
24 CHAIRPERSON JACOBS: Aye.  
25 MS. OJIMA: Resolution 14-05 has been approved.

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1 CHAIRPERSON JACOBS: And let's take a  
2 five-minute recess, if we will, and let's try to keep it  
3 to five minutes even though the restrooms in this end of  
4 the building are closed.

5 (Recess taken.)

6 --o0o--

7 **Item 7. Discussion of CalHFA's authority to lend**  
8 **directly to homebuyers in the Single Family program.**

9 CHAIRPERSON JACOBS: Great. Let's move on to  
10 item 7, the single-family direct lending. We've got  
11 Rick here.

12 MR. OKIKAWA: Good morning -- we can just make  
13 it as good morning, anyway -- Mr. Chairman, members of  
14 the Board.

15 Last meeting, there was an open discussion about  
16 direct lending and the benefits of direct lending. Part  
17 of the discussion included discussion about cutting out  
18 the middleman and some of those benefits that could be  
19 had from cutting out the middleman and to pass those on  
20 to the borrower and the Agency. However, the issue came  
21 up about direct lending itself, and that's why Tom  
22 Freeburger, our assistant general counsel, has written  
23 this memo to the board. And he'd like to go over  
24 briefly what that memo is and answer any questions that  
25 you might have.

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1 MR. FREEBURGER: Good morning. Just in case you  
2 might not have had an opportunity to look at it, I'll  
3 just quickly go through. And the main point is we are  
4 currently statutorily prohibited from direct lending.  
5 There are a couple of exceptions, which don't really --  
6 have never come into play. And we have some limited  
7 exceptions for some downpayment assistance which,  
8 fortunately, we have not had to use.

9 This came about when we were first created. The  
10 savings and loans basically fought our doing that, and  
11 the compromise was we could buy loans they originated,  
12 but we couldn't originate them ourselves. Whether that  
13 will continue on with the current industry, I wouldn't  
14 know. At least I suspect that perhaps.

15 There are also substantial risks to the Agency  
16 were we to engage in this. Basically, one would be real  
17 estate risks because when we sold those loans to a  
18 master servicer to be securitized, we would have a  
19 repurchase obligation for any failure on warranties or  
20 many other things that might go wrong with the loan.  
21 And there's been a lot of press lately about Fannie,  
22 Freddie and other securitizers going back against loan  
23 originators to repurchase billions of dollars worth of  
24 loans.

25 And then there's also regulatory risk because

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1 there are many, many rules governing these, which then  
2 theoretically could expose us to sanctions from the  
3 appropriate government entity.

4 And lastly, there are other very significant  
5 considerations here, IT among them, and also staffing to  
6 handle the work that would go with being loan officers  
7 and originating loans and the very substantial issue of  
8 staffing for compliance, which for those of you who read  
9 anything about Frank -- Dodd-Frank or FHA, there are so  
10 many, so many, regulations to be dealt with now that  
11 it's an up and coming source of jobs, is just compliance  
12 officers and compliance attorneys. Expensive, hard to  
13 find and even if we farmed it out, it would be very  
14 expensive.

15 So I'd be glad to answer any questions you have  
16 or expand on something, but at the moment we're not  
17 allowed to. And if we wanted to look at it at some time  
18 in the future, those are the type of issues that would  
19 have to be considered and addressed.

20 MR. GUNNING: Mr. Chairman?

21 Tom, in the public finance business, we used to  
22 categorize lawyers in two buckets: Ones that said, no,  
23 you can't do the deal and, two, that said, yes, you can  
24 do the deal. You seem to be in the first bucket here.  
25 Is there a way to do it? I mean, what if you think

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1 about it differently? And I know all the cautions you  
2 provided --

3 MR. FREEBURGER: The first way to do it is we  
4 have to go to the Legislature and get their permission,  
5 and that's why I alluded whether or not lenders now  
6 would care whether we did that or would see us as a  
7 source of competition that they'd rather not have, I  
8 could only surmise. But we would have to go to the  
9 Legislature. It would be some work. Di would be much  
10 better able to address what the possibilities of that  
11 might be --

12 MR. GUNNING: We know Di can get it done.

13 MR. FREEBURGER: -- but that would be the first  
14 step. Pardon me?

15 MR. GUNNING: We know Di can get it done. She  
16 can work miracles in that building.

17 MS. FALK: Well, if we were going to be  
18 exploring this at all, I'd rather see it be part of the  
19 business plan and part of the new revenue and, you know,  
20 look at this versus other kinds of things, if that's --  
21 I mean, I personally don't want to go in that direction,  
22 but if that's what people are interested in. I'd rather  
23 see it be taken a look at and studied before we go any  
24 further.

25 CHAIRPERSON JACOBS: Agreed.

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1 MR. FREEBURGER: I might mention, you know,  
2 things change. This is not a question that's come up  
3 for the first time since I've been here. It comes up  
4 regularly every couple of years if we have a new  
5 director of lending or something, but the big objection  
6 was, years back, brick and mortar. Well, that's not the  
7 same consideration now. You don't have to have 500 loan  
8 offices across the state. But now there's other reasons  
9 that we'd have to think about. That one's gone. Times  
10 do change. And in the future perhaps it should be  
11 looked at again, but right now, with the constraints and  
12 the risks that we're currently addressing, I'd caution  
13 to be careful about that going into it and look at all  
14 the things that I have mentioned.

15 CHAIRPERSON JACOBS: Thank you, Tom.

16 Any other questions on this item?

17 --oOo--

18 **Item 8. Discussion to expand CalHFA's mortgage products**  
19 **to include low or moderate income non-first-time**  
20 **homebuyers who are not in targeted areas.**

21 CHAIRPERSON JACOBS: Let's move on to No. 8,  
22 non-first-time homebuyers.

23 MR. GIEBEL: Good morning. Thanks for the  
24 chance to talk about single-family lending. It seems to  
25 be a hot topic. Sheryl Angst is our secondary marketing

1 chief.

2 Just something that was mentioned earlier,  
3 before I get into this, we do track every loan, every  
4 day from reservation to purchase, and that would include  
5 CHDAPs, downpayment assistance, first mortgages. Right  
6 now it's the FHAs and our MCCs and our Extra Credit  
7 Teacher Program. So we can tell you on any given day  
8 how many have been purchased and how many reservations  
9 we have. For example, I think the number was 38 that  
10 we've actually purchased, first mortgages. We have 90  
11 in the queue. Just to let you know, our dropout rate is  
12 about 20 percent. So we'd be happy to share those  
13 numbers with you.

14 What we're about to present to you is a  
15 discussion about expanding our capabilities on lending  
16 to another target audience. Right now we are focused,  
17 except in targeted areas, on first-time homebuyers. We  
18 started that way with our FHA product. Monday we are  
19 going to announce our 97-percent conventional product,  
20 along with our energy efficient program. That will go  
21 out to the marketplace on Monday.

22 And this discussion is to expand the target  
23 audience -- and I'll take you through this -- to  
24 non-first-time homebuyers across the state. Low to  
25 moderate income, same requirements, and -- as we have

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1 for the first-time homebuyers, but it's just another  
2 target market. So Sheryl will -- Sheryl and I will take  
3 you through the presentation, and please ask any  
4 questions as we go through.

5 Just to let you know, CalHFA statutes permit  
6 lending to non-first-time homebuyers. It's not a  
7 statute issue. Two, the TBA market does not have a  
8 first-time homebuyer requirement. It's not a mortgage  
9 revenue bond requirement, as we had in the past. That  
10 was federal with the tax exemption. It was -- the  
11 target was first-time homebuyers, as the MCC is, for  
12 example. Many of the HFAs over the last three years  
13 have expanded across the country in their states to  
14 non-first-time homebuyers because there's a need, and  
15 we'll talk about that in a minute.

16 Just quickly, some of the benefits that we have  
17 identified is, again, as you've seen in all the  
18 publications, renting continues to be more expensive  
19 than purchasing a home -- particularly in the eight  
20 counties, which I'll show you in a minute, than a  
21 purchase of a home at our interest rates today. Today  
22 our FHA first is 3.75, and our Cal Plus FHA product is 4  
23 and a quarter. So we have very good interest rates, and  
24 they can save a considerable amount of money if they can  
25 qualify to purchase.

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1           Two, a lot of people in low to moderate income  
2 areas have the ability to move up now that their houses  
3 are no longer under water, and this product, our  
4 products, would give them opportunity to move up based  
5 on family needs, and it's, again, within our income and  
6 sales price limits.

7           Distressed homeowners, which we know there's a  
8 significant number of distressed homeowners still in the  
9 state, this would also help those people, for example,  
10 people who have gone through a divorce and they are on a  
11 deed and wouldn't qualify as a first-time homebuyer.  
12 Two, people who have gone through short sales and -- in  
13 the last three years, they can get back in the market  
14 with this product and have across the states. And other  
15 people who have run into other issues would have the  
16 ability to buy that were homebuyers in the last three  
17 years.

18           Sheryl, why don't you talk about what FHA  
19 permits on the people who have -- in the last two or  
20 three years have gone through the short sale process and  
21 that type of thing. |

22           MS. ANGST: In general, the industry does have a  
23 three-year requirement for anybody who's had a  
24 foreclosure, bankruptcy, et cetera. FHA has -- under  
25 extenuating circumstances does allow people after two

1 years, if they can prove that the extenuating  
2 circumstances happened, they have recovered from it and  
3 they have reestablished credit, to now purchase a home  
4 after two years.

5 MR. GIEBEL: So FHA does permit this in their --  
6 in the process.

7 The last thing with our conventional product is  
8 we have -- Fannie permits you -- this was a Fannie  
9 preferred product only for housing finance agencies  
10 across the country. They permit 140-percent average  
11 AMI, area medium income. They permit that.

12 In the outlying areas where housing is -- you  
13 see increases, we think this -- our conventional product  
14 will be helpful to this particular segment of the  
15 market, but there is one caveat with this. The sales  
16 price limit is \$417,000. So regardless of what the  
17 income is, with Fannie, Freddie, and also FHA, you're at  
18 417, and that will be the law of the land as of the  
19 first of the year.

20 And the last area is it's an additional area for  
21 us to generate some revenue. It's a little bit larger  
22 market.

23 MS. ANGST: The homeowner requirements for this  
24 are going to be very similar to what we're doing now.  
25 They're going to be low and moderate income borrowers.

1 They cannot have an ownership interest in any other  
2 property at the time of loan closing. We're going to go  
3 ahead and mirror the Fannie Mae guidelines, which does  
4 not allow them to own a second home, a rental or a  
5 manufactured house at all.

6 They have to meet all the existing CalHFA and  
7 partner underwriting guidelines as far as DTA, the cash  
8 into the transaction, the homebuyer education and the  
9 home warranty. And they have to meet the Fannie Mae and  
10 FHA limits of 417.

11 MR. GIEBEL: Just, we looked - again, I talked  
12 about our target markets. We have eight. We do around  
13 75 to 80 percent of our loans in these markets on the  
14 CHDAP side, downpayment assistance. And I know as  
15 you've read before, you can see what the challenge is  
16 here. If you look at listings, 417 and below, there's  
17 just not a whole lot of inventory there. That's why in  
18 our large number that you saw, our goal of the 900 and  
19 the 1200 number, if we get a one percent to a one and  
20 half percent share of this business in those target  
21 markets where we're already providing downpayment  
22 assistance, you can see that's 250 to 360 loans of  
23 our -- just this particular segment of the market.

24 We will probably pick up some loans in the East  
25 Bay, in the Bay Area, San Diego, Orange County, but we

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1 haven't counted those in our forecast. Okay? Just to  
2 let you know the size of the market that we're looking  
3 at.

4 I think it's very interesting if you look at the  
5 county of Los Angeles, there's only 5600 listings of 417  
6 and below. That's why first-time homebuyer numbers are  
7 dropping from the usual third of the marketplace to the  
8 low 20s, because it's not only the restrictions on  
9 underwriting with FICOs and DTIs, it's also becoming a  
10 matter of inventory across the state.

11 MS. CABALLERO: I have one question.

12 MR. GIEBEL: Sure.

13 MS. CABALLERO: How were the targeted counties  
14 identified? What were the criteria that you used?

15 MR. GIEBEL: Our criteria is we have -- we will  
16 do about -- over 4,000 CHDAP loans this year, and they  
17 provide the 3 percent downpayment assistance. So every  
18 six months, we look at where those loans are going,  
19 because you have -- they're -- they're targeted to  
20 first-time homebuyers and low to moderate. In fact,  
21 they're pretty low income, compared to conventional  
22 loans. So we look at where those loans are done. And  
23 they're not all -- all our firsts have CHDAPs, but all  
24 the CHDAPs basically meet the income limits, so we use  
25 that as our base of where those properties are being

1 sold, marketed.

2 MS. CABALLERO: So is there a possibility of  
3 identifying other counties? The reason I say that is  
4 because I think the understanding that in L.A. trying to  
5 get -- trying to identify properties that sell under  
6 \$400,000 is important, yet if you take a look at the  
7 Central Valley starting in Stanislaus County all the way  
8 down to Madera, you probably could find, I'm guessing,  
9 ten times the amount of housing stock, mostly because  
10 those were the commuter communities that were expanded  
11 into during the rapid growth of the housing market. And  
12 those -- that housing stock, with the collapse, means  
13 that they're significantly under the 400,000. I'm  
14 just --

15 MR. GIEBEL: Well, if you just look at this  
16 quickly, Secretary, you'll see in the county of Fresno,  
17 there's a much higher percentage of 417. These are just  
18 listings. We picked these up from Trulia. This was  
19 what was on the market four weeks ago. And if you look  
20 at San Bernardino, you can see the vast majority, over  
21 50 percent, is with -- below 417. So those are our  
22 targets and filling in behind that.

23 The conventional product is going to be a little  
24 bit different because it's a 97. Nobody else has it.  
25 So we are projecting that in the outlying areas in the

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1 higher cost counties we will get additional business.  
2 But these, we target all our marketing and outreach to  
3 these markets.

4 MS. CABALLERO: I guess I'm just trying to  
5 figure out if we can -- from our perspective, if we can  
6 impact that in a way that might be substantive in terms  
7 of this actually working really well in certain markets.  
8 That's the reason for the question. I appreciate that,  
9 thank you.

10 CHAIRPERSON JACOBS: Is the 417 limit the same  
11 for duplex or triplex properties?

12 MS. ANGST: No, it will actually go up with the  
13 amount of residents, units.

14 CHAIRPERSON JACOBS: Okay, thanks.

15 MS. ANGST: This is just a snapshot of what we  
16 are currently offering to our first-time homebuyer  
17 programs. As you see, we have the five first  
18 mortgage --

19 MR. GIEBEL: As of Monday.

20 MS. ANGST: As of Monday we have the five first  
21 mortgage products, and they are TBA financed and allow  
22 subordinate financing, the ZIP, the CHDAP or the Extra  
23 Credit Teacher Program and the MCC. When we flip over  
24 to the next page, this is what our non-first-time  
25 homebuyers lending program would be. So we still have

1 our five first-time -- first mortgage loan programs, but  
2 the CHDAP, the Extra Credit Teacher Program and the MCC  
3 go away because those are bond financed, and they're not  
4 allowed.

5 MR. GIEBEL: So this is just another piece of  
6 the puzzle to get to our volume goals while serving our  
7 mission of -- to low to moderate homebuyers in the state  
8 of California and addressing needs. Because this  
9 product that's up here, there isn't another product on  
10 the market like it.

11 MS. SOTELO: Ken, how would you define success  
12 and when you measure that success of this program that  
13 you're launching on Monday? Can you kind of give us --

14 MR. GIEBEL: We will -- we will probably need  
15 six months to take a look at it. I think I mentioned  
16 this the other day. Our big challenge right now, as is  
17 almost everybody's in the lending business, is to get  
18 our lenders -- not the loan officers, but to get our  
19 lenders to put these products on their lending  
20 platforms.

21 We have over 90 CalHFA-approved lenders. We  
22 have slightly over 50, it might be 55 now, that are  
23 approved by U.S. Bank, our master servicer, to do these  
24 loans. We have slightly less than that that are  
25 approved by Fannie Mae, but we can cover those through

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1 the U.S. master servicer's approval by Fannie. We have  
2 as of last Friday about 28 lenders of that 50 that have  
3 actually submitted a reservation. Our challenge -- and  
4 we are spending all our time on getting them to load the  
5 product because we can't spend a dime on letting  
6 borrowers or doing outreach per se -- not training, but  
7 outreach -- until we get enough lenders to get us to  
8 those goal numbers we need. That's our challenge.

9 MS. SOTELO: So again, just so that we're all on  
10 the same page, what are your goal numbers and when -- I  
11 mean, how -- how often will you -- can you report back  
12 to the Board in terms of --

13 MR. GIEBEL: We can -- we can report monthly. I  
14 mean, as you meet, we can report every Board meeting.

15 MS. CAPPIO: We can add it to the reports on the  
16 back of the agenda that we don't necessarily talk about  
17 at the meeting but are provided to the Board.

18 MS. SOTELO: Yeah, because I think it would be  
19 important to look at the targeted counties and to see  
20 how you're performing in each of those targeted  
21 counties. And if the performance is less than you  
22 anticipate, to then readjust and target other counties  
23 that may have better play for us on the market side.

24 MR. GIEBEL: It takes us at least 60 to 90 days  
25 to get the loan officers trained once they load the --

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1 trained and then you start seeing the volume. Just to  
2 let you know on the FHA product that we've been -- had  
3 out there since the 26th of August, over the last six  
4 weeks we have almost -- or eight weeks, we have half of  
5 the volume I mentioned to you. So it's taken that long  
6 to get them loaded, and we probably have added a dozen  
7 in the last 40 days, lenders, to put it on their  
8 platform.

9 Okay? Thank you.

10 MR. GUNNING: And I had a follow-up question to  
11 that, and I guess it goes to last year this time, I  
12 don't remember what the product was, but the number of  
13 projections you made for that product, how many you've  
14 actually done and where do you plan to be at fiscal year  
15 end?

16 MR. GIEBEL: We -- we had projected last year  
17 600 on the FHA only product. Okay. Needless to say, we  
18 didn't -- I don't know if you would say we were naive --  
19 and that was based on what other FHAs had done -- states  
20 of Washington, Texas -- with the same products. We just  
21 couldn't get people to put it on their platforms,  
22 Michael. It took us till the first of the year to get a  
23 dozen lenders to put the FHA product on their platform.

24 MR. GUNNING: So the numbers --

25 MR. GIEBEL: Oh, one of the reasons why that

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1 January number is, is because of Dodd-Frank. They  
2 weren't loading anything. They had to do -- load all  
3 their requirements for FHA and for Fannie and, you know,  
4 the basic lending industry.

5 MS. FALK: So I have a follow-up question to  
6 that, which is how many -- if we do this, how many new  
7 loans are you projecting either in terms of number of  
8 loans or volume, total dollar amount? How much is it  
9 going to add?

10 MR. GIEBEL: Well, the numbers -- the goals, the  
11 numbers you saw earlier that go from July to June '14/15  
12 the 900 and the 1200 number, the higher one, those are  
13 our goals.

14 MS. FALK: But that's -- that includes this and  
15 other things. How much is this new --

16 MR. GIEBEL: We are projecting --

17 MS. FALK: -- program going to add?

18 MR. GIEBEL: We projected as we have on the  
19 conventional and the FHA, when we've gone back and done  
20 the numbers, a one and a half percent share. So out of  
21 those numbers you saw, the 24 percent, it's about 360  
22 loans from the non-first-time homebuyer market.

23 MS. FALK: So that 927, 300-plus is going to  
24 come from this.

25 MR. GIEBEL: Yes.

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1 MS. FALK: Okay, great.

2 MR. GIEBEL: It's in here.

3 MS. FALK: Yeah.

4 MR. GIEBEL: That's how we built those numbers.

5 MS. FALK: It's good to see those kinds of  
6 numbers when we see the program because then we have a  
7 sense of what it's going to do.

8 MR. GIEBEL: We've gone through the waterfall of  
9 each program and how many loans we anticipate and what  
10 the range is. And then the revenue fees that go along  
11 with that, that's in the number you saw for revenues.

12 CHAIRPERSON JACOBS: Thank you.

13 MR. GIEBEL: Thanks.

14 --oOo--

15 **Item 9. Discussion, recommendation and possible action**  
16 **regarding the adoption of a resolution to authorize**  
17 **hedging loan commitments as a financing strategy.**

18 **(Resolution 14-07)**

19 CHAIRPERSON JACOBS: Next we've got a discussion  
20 of our master hedge policy. Tony, hi.

21 MR. SERTICH: Yes, good afternoon.

22 We've had many discussions on our hedge policy  
23 and our hopes to do future hedging. Last meeting I  
24 think Mr. Jacobs had requested that we --

25 (Court reporter interrupts for clarification of

1 the record.)

2 MR. SERTICH: So last meeting Mr. Jacobs had  
3 proposed that maybe we come with a resolution this time  
4 to finally talk about moving forward with this. So what  
5 we're doing today is we are asking for permission for  
6 two things. One is to do hedges, two different type of  
7 hedges. One is single-family loan commitment hedges.  
8 The resolutions asks for permission to do \$200 million  
9 worth of single-family loan commitment hedges under the  
10 Agency's TBA program, as Ken and Sheryl talked about,  
11 through early next year. We could come back with a  
12 resolution every year, along with the financing  
13 resolutions that we did last -- we came to you last  
14 Board meeting with. And \$40 million of multifamily loan  
15 commitment hedges. These numbers tie to the goals in  
16 the business plan, so we would -- we're not asking to do  
17 hedges in excess of anything that's in the business plan  
18 right now.

19 Second thing in the resolution is adoption of  
20 the master hedge policy. The master hedge policy  
21 provides a framework within which we will do all of  
22 these hedges. It is the -- last meeting we talked a lot  
23 about the hedge policy and what's in it. There's been a  
24 couple of changes that have been made since last  
25 meeting. One was we put more clear limits on market

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1 exposure we'll take on the hedges. And then the rest of  
2 the changes are just clarifying changes, some language  
3 changes, but nothing too significant.

4 And then the -- but both the red-line version  
5 and the original version were presented as part of the  
6 Board package, I believe. And, again, the master hedge  
7 policy will be presented next year when we come back  
8 with another resolution, along with the financing  
9 resolutions, if we have any changes that need to be made  
10 to that or earlier if there's -- if the program is not  
11 working as we planned.

12 MS. CAPPPIO: We had just a question through the  
13 chair.

14 CHAIRPERSON JACOBS: Yes.

15 MS. CAPPPIO: That the one handed out this  
16 morning is the clean version of the red line.

17 MR. SERTICH: Correct.

18 MS. CAPPPIO: Okay. I just wanted to  
19 double-check.

20 MR. SERTICH: It should be the final version  
21 that's in there.

22 CHAIRPERSON JACOBS: Did everyone get a chance  
23 to read the red-line version with just those changes  
24 that are proposed? Okay. Great.

25 MS. CAPPPIO: Thank you.

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1 MR. SERTICH: So if there's any questions about  
2 this, I'm available for questions.

3 CHAIRPERSON JACOBS: Does anyone have questions  
4 on the edits? I think the edits addressed the concerns  
5 that we had. Anyone have a question?

6 Madame Secretary.

7 MS. CABALLERO: It actually isn't a question.  
8 It's just an observation. I think you've done a really  
9 good job of kind of walking us through this so that I  
10 feel real comfortable with it, but it would be good  
11 at -- maybe in October or thereabouts to kind of give  
12 us -- maybe December, the December meeting, an overview  
13 of how has this worked, what have been the challenges,  
14 that kind of thing. Because March doesn't -- March  
15 is -- doesn't line up with the budget in terms of when  
16 we'd be looking at the budget for the next year. And so  
17 it would be good to have a preview of kind of lessons  
18 learned or things we found out doing this, and so that  
19 it informs us when we come back in March, we'll be  
20 making a decision that's separate from the budget  
21 because we won't have the budget at that time.  
22 Otherwise I appreciate all the work that's gone into  
23 this, because I feel much more comfortable about it.

24 MR. SERTICH: The only thing I'd like to add is  
25 there's no immediate plans for us to do this right away,

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1 but it could happen. So we will definitely update you  
2 as we move forward with this.

3 CHAIRPERSON JACOBS: Yeah, I think just as one  
4 of the reported items that we may not even discuss at  
5 meetings just to -- every time we have meetings, are we  
6 using the facility; if so, how much, how's it going.

7 MR. SERTICH: Yes. I think that would be very  
8 doable.

9 CHAIRPERSON JACOBS: Anyone want to -- we have a  
10 resolution here. Does anyone want to bring this up?

11 MR. HUNTER: I'll be so bold. And also just to  
12 say it was really helpful having the red-line and clean  
13 edition side by side. Thank you for that.

14 And with that, I will move approval of  
15 Resolution 14-07.

16 MS. FALK: I'll second.

17 MR. PRINCE: And I'll provide a hedge to that  
18 second just in case -- no.

19 CHAIRPERSON JACOBS: Let's do the roll.

20 MS. OJIMA: Ms. Caballero.

21 MS. CABALLERO: Yes.

22 MS. OJIMA: Ms. Whittall-Scherfee.

23 MS. WHITTALL-SCHERFEE: Yes.

24 MS. OJIMA: Ms. Falk.

25 MS. FALK: Yes.

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1 MS. OJIMA: Ms. Gunn.

2 MS. GUNN: Yes.

3 MS. OJIMA: Mr. Gunning.

4 MR. GUNNING: Yes.

5 MS. OJIMA: Mr. Hunter.

6 MR. HUNTER: Yes.

7 MS. OJIMA: Ms. Carroll.

8 MS. CARROLL: Yes.

9 MS. OJIMA: Mr. Prince.

10 MR. PRINCE: Yes.

11 MS. OJIMA: Ms. Sotelo.

12 MS. SOTELO: Yes.

13 MS. OJIMA: Mr. Jacobs.

14 CHAIRPERSON JACOBS: Yes.

15 MS. OJIMA: Resolution 14-07 had been approved.

16 CHAIRPERSON JACOBS: Thank you. And thanks for  
17 the hard work on that, guys.

18 --oOo--

19 **Item 10. Review and Discussion of Two Proposals for**  
20 **Using Greenhouse Gas Reduction Funds (via the Cap and**  
21 **Trade Program in the California Global Warming Solutions**  
22 **Act of 2006) to further sustainable communities and**  
23 **affordable housing.**

24 CHAIRPERSON JACOBS: Let's see. The discussion  
25 of these, I guess the cap and trade proposals that have

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1       come around, we have a memo from Claudia. Do you have  
2       anything to add to that?

3               MS. CAPPPIO: This was at the request of a Board  
4       member. There are two proposals, one from the  
5       Administration and one from Senator Steinberg. They're  
6       both included in your packets.

7               Just as a brief overview, the sustainable  
8       communities implementation initiative is an interagency  
9       effort to come to some overarching principles within  
10      which to spend the money that would conceivably be  
11      allocated to that effort, and there are other  
12      expenditures proposed as well -- the high speed rail,  
13      the agricultural land preservation, Cal Fire efforts --  
14      all in the -- with the focus of decreasing greenhouse  
15      gas. So for us, the initial discussion in our  
16      interagency group has been the development of housing  
17      and fixtures around transit stations, obviously thus  
18      reducing vehicle miles traveled. So it's just  
19      information, if you'd like to address any questions.

20              MS. FALK: I just have a question. What is the  
21      Sustainable Growth Council, and who's -- who are its  
22      members?

23              MS. CAPPPIO: I will defer to Ken Alex on that,  
24      actually.

25              MR. ALEX: Hi. So I'm the director of the

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1 Governor's Office of Planning and Research and the chair  
2 of the Strategic Growth Council. I'll probably get this  
3 wrong since we just added three members, but the  
4 Strategic Growth Council includes Secretary Caballero,  
5 the Secretary of Resources, the Secretary of CalEPA, the  
6 Secretary of Transportation -- let's see -- there's one  
7 public member.

8 MS. CAPPPIO: Secretary Dooley.

9 MR. ALEX: Secretary Dooley, Health and Human  
10 Services. I'm probably missing one there. Oh, now  
11 we've just added Food and Ag, the Secretary of Food and  
12 Ag as well. So that's pretty much the group.

13 And so, as you can tell, with -- the  
14 Administration proposal is for \$100 million in this  
15 coming year out of cap and trade revenues with many  
16 mouths to feed and with things like housing and  
17 transportation as part of the mix. In addition, because  
18 the Williamson Act payments have ended, the \$100 million  
19 is also intended to cover potentially some issues around  
20 agricultural land that would otherwise be developed to  
21 keep it in agriculture production. So \$100 million is a  
22 fairly limited amount of money for all of this, so we're  
23 hoping to figure out in the next few months the best  
24 possible way to make the 100 million be meaningful for  
25 greenhouse gas reduction.

1 CHAIRPERSON JACOBS: Thanks for answering those  
2 questions, actually.

3 If you would just keep us apprised of this as it  
4 progresses.

5 MS. CAPPPIO: And I guess you noted, just for the  
6 record, that there's a substantial difference between  
7 the Administration's proposal and Senator Steinberg's,  
8 so perhaps somewhere in the middle of that is where  
9 we'll end up.

10 MR. ALEX: If I can comment on that, just real  
11 quickly, there's some suggestion that the Steinberg  
12 proposal is not about this year, and so we need to  
13 figure -- there may be in future years, because after  
14 this year, the cap and trade revenue will also include  
15 money from fuels. So right now -- and that may increase  
16 the dollars available quite significantly. So that may  
17 be part of the difference between the two proposals.

18 MS. FALK: One additional question. So in the  
19 Steinberg write-up in the back of here, it says that the  
20 illustration was for 5 billion, and it says in your memo  
21 that the current amount is 850 million, and there's a  
22 pretty big gap there. Is it really expected to get to 5  
23 billion?

24 MS. CAPPPIO: I guess I'll note that's projected  
25 versus actual.

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1 MR. ALEX: We can hedge a bit, but just to  
2 clarify, when fuels come under the cap, it will change  
3 the revenue projections pretty significantly. The cap  
4 also declines over time. That's the purpose of the cap.  
5 And that will also increase the value of -- the credits  
6 will conceivably increase the dollar amount as well, so  
7 what those dollars are actually, of course you can  
8 imagine that we're being fairly conservative.

9 MR. HUNTER: So I have sort of a -- well, to me,  
10 interesting question. It may not be interesting to  
11 everybody else. Does CalHFA as an entity advocate or  
12 advise various parts of the state government on issues  
13 related to the housing needs of low and moderate income  
14 Californians? So in other words, as this conversation  
15 moves forward, is CalHFA -- is there any way in which  
16 CalHFA as a board or as an entity is participating in  
17 those conversations as an advocate for the population  
18 that we're to serve?

19 MS. CAPPPIO: CalHFA has been an integral part of  
20 the sustainable communities group, the interagency  
21 group, that has come together for part of the -- for the  
22 trailer bill that has been proposed by the  
23 Administration. I also provide technical assistance and  
24 information. I actually need to stop short of advocacy.  
25 That's not been our role, and I think if I may call on

1 my general counsel, I think there's a prohibition  
2 against that.

3 MR. JAMES: Well, yes, it's -- well, advocacy is  
4 different from providing technical advice. And because  
5 you are a governmental agency, our role is to --  
6 statutorily to provide technical information or advice  
7 to the Legislature and, of course, to the Administration  
8 where appropriate.

9 This is an independent board. It can sort of  
10 state a position with regards to what its interests are,  
11 but as an entity, it cannot advocate in any active way  
12 by virtue of our status as a governmental entity.

13 MS. CAPPIO: So the short answer is I ride a  
14 fine line.

15 MS. FALK: Can the Board take a position on  
16 things?

17 MR. JAMES: Let me get back to you on it.  
18 That's an important point, and let me get back to the  
19 Board on it.

20 CHAIRPERSON JACOBS: Okay. I'm sure we'll see  
21 this coming back and around as it moves through. All  
22 right. Thanks.

23 MR. HUNTER: I just would say that the reason  
24 that I raised that question is that I've been concerned  
25 about the trends in transit line development that's

1 actually being built not adequately addressing the needs  
2 of low and very low income Californians.

3 MS. CAPPIO: Thank you.

4 --o0o--

5 **Item 11. Reports.**

6 CHAIRPERSON JACOBS: Let's see. We've got a  
7 series of reports. Did anyone have specific -- I mean,  
8 are these mostly information items?

9 MS. CAPPIO: That's correct. We normally don't  
10 present them, but if there are any questions or you need  
11 additional information, we're happy to address that.

12 MR. HUNTER: Well, I guess I would just say as a  
13 part of my sidebar conversation during the break, I do  
14 think that as one of the old-timers on the Board, it is  
15 so heartening to see the reduction in the delinquent  
16 loan trends but also as apropos of our former  
17 conversation about the legacy revenues and costs. And  
18 it's sort of like as this problem decreases, it does  
19 create an interesting corresponding future problem,  
20 which is what is the future source of revenue? But I --  
21 it is -- I am pleased to see that the delinquent loan  
22 trend continues to be on a downward arch. But also it  
23 would be really nice to see future lending activity also  
24 correspondingly increasing.

25 CHAIRPERSON JACOBS: Well said, actually.



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In witness whereof, I have hereunto set my hand this 2nd day of June 2014.

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Yvonne K. Fenner  
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