STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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California State Teacher's Retirement System ("CalSTRS")
100 Waterfront Place, Board Room
West Sacramento, California

and

CalHFA Culver City Office
100 Corporate Pointe, Suite 250
Culver City, California

Tuesday, July 8, 2014
10:01 a.m. to 11:39 a.m.

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Minutes approved by the Board of Directors at its meeting held:
September 16, 2014
Attest: [signature]

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

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A P P E A R A N C E S

Board of Directors Present:

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

KEN ALEX
Director
Office of Planning & Research
State of California

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing and Redevelopment Agency

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

MICHAEL GUNNING
Vice President
Personal Insurance Federation of California

ERAINA L. ORTEGA
for Michael Cohen, Director
Department of Finance
State of California

DALILA SOTELO
Principal
The Sotelo Group

A P P E A R A N C E S

Board of Directors Present (continued):

COL (Ret) MICHAEL N. WELLS
for Peter James Gravett, Secretary
California Department of Veterans Affairs
State of California

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

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Participating CalHFA Staff:

VICTOR J. JAMES
General Counsel

JAMES MORGAN
Chief of Multifamily Programs

JOJO OJIMA
Office of the General Counsel
Legal Division

DIANE RICHARDSON
Director of State Legislation
Administration Division

ANTHONY SERTICH
Manager
Financing Risk Division

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BE IT REMEMBERED that on Tuesday, July 8, 2014, commencing at the hour of 10:01 a.m., at California State Teacher's Retirement System ("CalSTRS"), 100 Waterfront Place, Board Room, West Sacramento, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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CHAIRPERSON JACOBS: I'm going to call to order the July 8th meeting of the CalHFA Board.

This is not a heavy agenda. We are actually telecasting to Culver City, though it doesn't look like we have a large audience in Culver City. This is a sort of special meeting. We have some wonderful news out of the Governor's Office, some changes at the Agency and some changes at HCD. And I think just on behalf of the Board, before we get started at all, I would like to congratulate both of you on these big new moves. And I really think it's an opportunity for us to do great things going forward.

MS. CAPPIO: We do too. So far, so good.

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Item 1. Roll Call.

CHAIRPERSON JACOBS: Let's see. Let's do the roll call to get started.

JoJo, if you would.

MS. OJIMA: Thank you.
Ms. Caballero.
MS. CABALLERO: Here.
MS. OJIMA: Ms. Whittall-Scherfee for Mr. Deems.
MS. WHITTALL-SCHERFEE: Here.
MS. OJIMA: Ms. Falk.
MS. FALK: Yes, here.
MS. OJIMA: Mr. Wells for Mr. Gravett.
MR. WELLS: Here.
MS. OJIMA: Mr. Gunning.
MR. GUNNING: Here.
MS. OJIMA: Mr. Hunter.
(No audible response.)
MS. OJIMA: Ms. Carroll for Mr. Lockyer.
MS. CARROLL: Here.
MS. OJIMA: Ms. Patterson.
MS. PATTERSON: Here.
MS. OJIMA: Mr. Prince.
(No audible response.)
MS. OJIMA: Ms. Sotelo.
MS. SOTELO: Here.
MS. OJIMA: Thank you.
Mr. Alex.
MR. ALEX: Here.
MS. OJIMA: Ms. Ortega for Mr. Cohen.

MS. ORTEGA: Here.

MS. OJIMA: Ms. Cappio.

MS. CAPPIO: Here.

MS. OJIMA: Mr. Jacobs.

CHAIRPERSON JACOBS: Here.

MS. OJIMA: We have a quorum.

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Item 2. Approval of the minutes of the May 13, 2014 Board of Directors meeting.

CHAIRPERSON JACOBS: All right. We've got the minutes from our last meeting, May 13th. Any edits to that?

Do we have a motion to approve the minutes?

MS. SOTELO: I move approval.

MS. CABALLERO: Second.

CHAIRPERSON JACOBS: Let's call the roll on that.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Whittall-Scherfee.

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Ms. Falk.

MS. FALK: Aye.

MS. OJIMA: Mr. Wells.

MR. WELLS: Aye.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Abstain.

MS. OJIMA: Thank you.

Ms. Sotelo.

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs.

CHAIRPERSON JACOBS: Aye.

MS. OJIMA: The minutes have been approved.

CHAIRPERSON JACOBS: Great. Thanks, JoJo.

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Item 9. Public testimony.

CHAIRPERSON JACOBS: Let's see. Before we jump into agenda items, I would like to offer the public, any members of the public, a chance to speak before we dig into the meeting. We have a closed session coming up later, and I don't want to make anybody wait around. Is there any members of the public with a comment or testimony?

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Item 4 Review and Discussion of Projected Revenues and

Budget for FY 2014-15.

CHAIRPERSON JACOBS: All right. Seeing none, let's move on to item No. 4, which is the review and discussion of projected revenues and budget which the Board had asked for.

And, Tony?

MR. SERTICH: Good morning. I'm here today sitting in for Tim Hsu who's on a well-deserved vacation.

As Mr. Jacobs said, we're reviewing an item that was sent to the Board that Ms. Falk requested, sort of detailing the revenues expected in the next year to tie to the budget. I'm going to be very brief and open this to questions very shortly. I just want to point out a few things in the details we have.

One is that the majority of the income that we expect to receive next year is from legacy activities, which is really existing loans that are paying interest and principal over time that help us fund our operations. The -- and that legacy income that we expect to receive is more than the budgeted expenses, so the new -- new activities, the new loans that we're issuing, the new fees that we're receiving, are -- while I wouldn't say they're gravy, they're not necessary to the -- for the operation of the Agency. However, over time, the legacy income will decrease, and we will need to grow the -- the new business in order to keep the Agency at its current expense levels.

The one other thing that was added on was the number of loans that are expected to be funded this year by the Agency on the new activities at the second session. And those are based on our best projection from our program managers.

I'll open it up to any questions if anyone has anything.

CHAIRPERSON JACOBS: All right. Thanks. I think that was a really great presentation. I think it does underscore the need for new programs going forward, and I think it was well-requested and well-presented. Thank you.

MR. SERTICH: Thank you.

MS. SOTELO: Can I?

CHAIRPERSON JACOBS: Yes, please.

MS. SOTELO: Tony, I just have a quick question on the HELP loans, the 11.6, those -- those loans are maturing loans? Or can you tell me a little bit about that in the context of, I guess, we had gotten a presentation the last quarter around the performance of the portfolio and how the portfolio is doing?

MR. SERTICH: Yeah, the HELP loans are special loans that were made to localities to help fund affordable housing projects. And those were ten-year loans, and so they were made when the Agency had a lot of cash in the mid-2000s, and so a lot of those are coming due. We've been receiving repayments and prepayments over the last couple years, and they're continuing to come in.

So there's two items for that. One is the repayments and the maturities. Then down below on the interest, we also expect to receive interest on those loans as well. So those, in general we've had a very good repayment rate on those even though they're not necessarily the traditional mortgage loans that we've given out.

MS. SOTELO: This represents such a large amount, I just wanted to, I guess, understand whether they're -- it's a conservative estimate of what you anticipate or --

MR. SERTICH: It's what we -- yeah, it's what we expect to get as loans that are maturing in the next fiscal year.

CHAIRPERSON JACOBS: Claudia.

MS. CAPPIO: Just to add, the HELP loans were based on excess bond revenue. Oh, to be in that position again.

MS. SOTELO: Yes.

MS. CAPPIO: And we -- they really had very few strings, and they were made to purchase land or help with gap financing, et cetera. They were very flexible. And what we did when we got into a cash crunch is look at those, that program, in a critical way and actually offered incentive for early repayment. So we have been doing that fairly aggressively because the most important thing to the Agency in the last few years is cash. And so we -- this reflects that, as well just the amortization of those loans over time.

There's a couple of folks who have asked for more time because of the dissolution of redevelopment and other problems, but it all evens out, and we were able to improve the cash position of the Agency by being a little more aggressive than we would have been had we not been in the financial state we were in.

MR. SERTICH: Yes. And to clarify just one thing, this number here is only the maturity, the loans that are maturing this year, and not any other prepayments that we expect to receive, so that we still have a program to incentivize prepayments on those as well.

CHAIRPERSON JACOBS: Tia.

MS. PATTERSON: So on the HELP loans, were some of those loans secured by redevelopment funds or tax increment, do you recall? Because --

MR. SERTICH: There were some loans that were made directly to redevelopment agencies, and we've been working with Department of Finance and the redevelopment -- or whoever the successor agencies are to work that out as well, correct.

MS. CAPPIO: There's security that deals with the City itself.

MS. PATTERSON: Okay. But then there were some HELP loans that were made directly to redevelopment agencies, and we're making sure that we get the repayment on those.

MR. SERTICH: That's correct.

MS. PATTERSON: Okay.

MS. WHITTALL-SCHERFEE: We've been fighting the good fight on that.

MS. PATTERSON: With our partner.

CHAIRPERSON JACOBS: Any other questions?

MS. FALK: I do.

CHAIRPERSON JACOBS: Janet.

MS. FALK: I'd like to really thank the staff for putting this together. It makes it so much more clearer as to where our money is coming from as well as where it's going to and, you know, especially with the -- adding the number of loans in there. That way we can take a look next year when we see the budget and we have a comparison of this year with next year of what, you know, we project, so I think that's really -- thank you very much for doing that.

But we're talking about declining revenues, and I think I heard something about we have something like 18 months before this sort of starts running out, maybe more. But in any case, we do need to be looking at where revenue is coming from in the future. And I would like to request that the staff take a look at new and innovative programs that we might be able to do and kind of think outside the box and come back to the Board maybe in four months, six months, whatever you think you need, with some ideas about where the revenues might come from, new programs, what kinds of things can this Agency do, you know, to fill the needs in the marketplace, too. If we're just competing with the banks and the banks are doing what we're doing, you know, they're always going to be able to have a little edge. So what can we -- where are the places that we need to fill in for the needs of the State and within the ability of the Agency to do?

So I'd like to propose that as something for the staff to do and, as I said, to come back to the Board in four to six months with some proposals and not even necessarily recommendations, but just options, and it could be recommendations, too, of ways -- of different kinds of programs that we might undertake to generate new revenue going forward.

MR. SERTICH: That's definitely something we've been focused on, and I think even the next agenda item will -- is a step in that direction, to a certain extent.

CHAIRPERSON JACOBS: I think, actually, maybe at the end of this meeting let's ask Claudia for just some parting thoughts and directions and opportunities, you know, just where as an Agency we should be heading, where staff should be focused. Good suggestions.

MS. FALK: Do we need to vote on that, or is that something --

MS. CAPPIO: We can do it under executive director comments.

MS. CABALLERO: I think we ought to vote to accept the report.

CHAIRPERSON JACOBS: Oh, yes. Can we do a vote to accept --

MS. CABALLERO: A motion?

CHAIRPERSON JACOBS: Do we need to?

MR. JAMES: No, it's informational.

CHAIRPERSON JACOBS: It's informational. We'd love to see it every year.

MS. CAPPIO: Yeah, as part of the budget.

MS. FALK: We agreed last time this was going to be, you know, put --

CHAIRPERSON JACOBS: Added to the budget.

MR. JAMES: Yes. And staff had heard, and this will be included each year when we submit our annual budget and business plan.

MS. FALK: In terms of going forward and coming back to us with some new ideas, do we need to have a motion about that, or is that just --

MS. CAPPIO: No, it's just direction.

MS. FALK: Okay.

CHAIRPERSON JACOBS: All right. Thanks, everyone.

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Item 5. Update and Discussion of the Agency's implementation of the 35/17 Risk Share Program.

CHAIRPERSON JACOBS: Let's move on to the risk share program. Who is presenting that?

MR. JAMES: Jim Morgan.

CHAIRPERSON JACOBS: Okay. And we had a handout that was e-mailed. Did everyone have a chance to read it?

MS. CAPPIO: I think it's on the desk.

MR. JAMES: And there's a PowerPoint as well.

CHAIRPERSON JACOBS: The PowerPoint was e-mailed to the Board.

MS. CAPPIO: Right. And then there's a copy of it here.

CHAIRPERSON JACOBS: Okay, Jim.

MR. MORGAN: Good morning. And, Janet, I'll explain I'm about to talk about some alternatives that we've already implemented on the multifamily side.

Good morning. I'm Jim Morgan, multifamily programs chief. I don't have anything clever to say like Tim always has some type of quote from Star Trek, Star Wars, what have you, but I feel like attendance, it was like my wedding. There's the bride's side and my, groom's, side, so I feel kind of like it's a marriage right here amongst us all.

Just to talk about what Janet was discussing, there is some direction coming from HUD DC, HUD headquarters, on a synthetic Ginnie Mae, if you will. The last three years the National Council of State Housing Agencies has pursued Congress to allow the HFAs to issue Ginnie Maes and do mortgage-backed Ginnie Maes. And there hasn't been a lot of movement.

Notification came out, and it was announced at the NCSHA credit conference in Chicago that the Treasury is looking at through its federal financing bank, looking at buying or -- buying HFA bonds at a synthetic Fannie Mae rate. So it's not a Fannie Mae rate, but it a would be -- it's not a -- I'm sorry, a Ginnie Mae rate, but it would be a -- or not a Ginnie Mae bond, but it would be a Ginnie Mae rate passthrough.

So New York is on the docket for that in September. They've kind of worked out the kinks through HUD headquarters, and we'll know what is -- what will take place. HUD headquarters has also given direction to us to give them what we feel in the portfolio that we can take advantage of in the next two to three years if that was to pass.

So that will -- that will -- I mean, it's not an alternative type loan program, but the rate's pretty attractive where we can focus on the portfolio and new business.

All right, Tony, next page.

We wanted to come back and talk to you about our 35/17 program. It was in our business -- it was in our strategic business plan that you guys approved in May. Part of that was the 35/17 acq rehab and then also the permanent loan only program. So this 35/17 program would apply to both.

So in referencing the first bullet there, it would -- we would have the HUD risk share program implemented, and we would have the capability to do loans as short as 17 years. And we can also apply to the permanent loan as well. So we are the permanent takeout lender, and we're not part of the construction loan or an acq rehab loan, let's say Chase or Silicon Valley Bank as the construction lender. We can operate in the capacity of a perm takeout lender and use this product.

It's -- it's generated interest with some of the bigger banks that don't want to have those loans on their balance sheet. U.S. Bank, Chase doesn't want to do anything over $8 million. Silicon Valley Bank just wants to do construction lending. So this is a good product for us to do perm lending.

I just wanted to follow up with that, with the memo that you had in your binder. There's a historical there with regards to where we're at and where we've come from. And this -- this program, again, will be administered under our risk share program which has been in place since '94 and will allow us to offer an abbreviated maturity, which thus will have some cost savings in the bond, as far as the bonds are concerned.

CHAIRPERSON JACOBS: One question, just let's say someone wants to pay off after 15 years. Is there defeasance, or how does that --

MR. MORGAN: I'll get to that. It's in the presentation, but we'll -- what we'll do is we'll -- it will be -- it will be set up to allow prepayment that year. It will be set up for year 15 to prepay, but there's no defeasance cost or anything like that. It's just a payoff.

More to -- there's more to come on that. We're getting the particulars from HUD headquarters, so we owe them our underwriting guidelines and our specifics, which we're in the process of doing.

With regards to the fourth bullet there, this will -- this will give us an opportunity to focus on our existing deals in our portfolio and also new business.

With regards to our existing portfolios, we have 31 projects that are maturing on or before April 1st, 2019. So within the next five years, we have 31 projects maturing. And within those 31, 12 of them have Section 8 HAP contracts that are expiring. So this will be a good opportunity for us to market our program and reach out to those owners, developers to provide them with an opportunity to recapitalize. So that's built into our marketing plan.

In addition, we've also identified projects in our portfolio that are maturing on or before 12/31/98 basically through their 15-year compliance period. We'll also reach out to those folks too. So this will give us an opportunity to just take the portfolio that -- we have a business opportunity within our own portfolio and working with our asset managers to get an idea on the condition and the scope of the buildings and be able to implement that going forward with this loan program as far as recapitalization.

Next page, Tony.

In the memo there was -- there was a reference to an attachment. It was the -- our -- our HUD regulatory waiver approval, so hopefully you have those in front of you. You know, as stated in the approval, HUD has given us a two-year regulatory waiver effective January -- or July 1st, 2014, all the way through June 30, 2016.

The reason for the waiver is they -- is that when we proposed this structure back in February and they -- they were onboard. However, we proposed it as a pilot, which they could not do, but what they could do is they were very favorable about allowing a balloon payment, because other HFAs have inquired. And rather than going through a regulatory change which would take up to two years, they gave us a waiver for two years, which -- to try and coincide with the timing of the process it would take for the regulatory change, because other HFAs are seeking this waiver as well. So they figure by two years they will have this implemented. And if not, we can always ask for an extension.

The second bullet is the one I'm excited about, total amount of loan transactions during this time frame capped at 40. Like Claudia mentioned, this is a problem I would love to have. I would love to have this. You know -- you know, in the memo it says 20 per year for a total of 40. It's just really capped at 40. So hopefully I can come to you in May 2016 saying, "We're seeking a waiver for 80 projects," but we'll work on that.

There is a restriction for affordable housing deed restriction for no less than 20 years. We're in the process of approving or preparing our underwriting guidelines for HUD for this program. We have to provide HUD with annual underwriting guidelines anyway, so this is just going to be a modification of our current guidelines to show what our takeout strategy, exit strategy, would be in those that would qualify, and I'll be getting to those a little later.

And, of course, all other HUD risk share regulations apply, Davis-Bacon, insured advances, everything else.

MR. GUNNING: Jim, it says that the waiver's conditioned upon their approval of the underwriting guidelines. Do you anticipate any problems with that or --

MR. MORGAN: No, it's -- it's what will -- what we're -- I don't anticipate any issues. We're basically going to incorporate the conditions provided by HUD headquarters into our guidelines and then provide them what we -- what we have as an exit strategy expected of the borrowers. So in -- so we'll -- and I'll touch on that, but as they stated in their -- in their approval letter, developer experience, exit strategy, stress test items like projected debt service coverage ratio, projected loan to value, any depreciation, cap rate, a lot of nuances, but it's just going to be broad based to cover their -- to address their concerns. But we don't -- we don't expect any delays. I've already spoken to the -- Jim Carey, who is their HUD headquarters multifamily policy director. He's -- he's waiting for our guidelines.

So it's -- we've had pretty good turnaround, given the fact that we're dealing with HUD headquarters. We submitted this at the end of February, the ask, and we were approved three months later, so we've been receiving really good turnaround time.

MS. FALK: I just want to make sure I understand. Why do you want the short-term to be less?

MR. MORGAN: Well, that's a good question. The reason is that when we go out and we're trying to recap our deals, we haven't had, you know, the -- the cost savings associated with the shorter term CalHFA loan, which allows us to offer, you know, a lower interest rate will be able to assist us in fulfilling our mission to really focus on the portfolio and recapitalize those deals.

And compared to other lenders that have mirrored this product, you know, there's -- there's -- there's the Citibanks, the Unions, the other folks that have a 35/17 program that we're not even close to -- to being able to compete with -- and not that this is -- it is a competition, but we're really trying to focus on our portfolio, and with our existing rates, you know, it's -- the cost savings that we have at 30 basis points or so make us -- gives us an opportunity to do that. Otherwise we're just sitting on the sidelines. I mean, we've received over 70 prepayment inquiries, and we've been able to convert a few, single digits, and we'd like to really improve on that number and be able to recapitalize our projects, so.

MS. FALK: Do the borrowers want shorter term? Do the borrowers want three months?

MR. MORGAN: They -- they like the fact that there's a balloon, not necessarily 17, but when you do a 20-year, they like that to be able to -- especially with credits in the deal where they can seek recapitalization.

Not all borrowers are going to go for this. We have -- we have projects in our portfolio that are just nonprofit developers. They've been in our portfolio for like 30 -- they have a 35-loan, and they're in there for 33 years. They're not interested in this type of product, and there may be -- and they may have one or two projects. They're looking at more of a fully amortized loan, and there's a lot of equity in the deal where maybe credits are not necessary. We can just issue 501(c)(3) bonds and do it. So it's just -- it's just another vehicle.

MS. FALK: Another tool.

MR. MORGAN: Yeah.

MS. FALK: I mean, in general I'm really concerned about balloon loans, especially for nonprofits. It's really hard, and it takes a lot of staff time and a lot of energy on the part of nonprofits to refinance. You can -- theoretically you can show you can repay it. That's the easy part. Whether practically -- it puts them on a time line that sometimes they, you know, can't achieve. You know, they need 20 years, or they need 18 years or whatever it is, it's -- and, you know, depending on what the situation is, if it's just a refinance, they don't get the developer fee, yet they're putting staff time into the deal. And, you know, it's just like redoing the project again, so it's problematic from a lot of perspectives.

MR. MORGAN: Yeah.

MS. FALK: But I understand that the rate's lower so that's why people do it, but it's -- I think it puts people in a difficult --

MR. MORGAN: Yeah, and it --

CHAIRPERSON JACOBS: That's why the concern for defeasance just to make sure, you know, if you know it's maturing year 17, you prepay sometime in that so you're timing it --

MS. FALK: People can't, though, because the 17 years is really two years of construction plus the 15, so you're -- you're right at 15, you may have -- you know, you might need to work things out with your investor before you recapitalize the whole project. It just gets complicated.

CHAIRPERSON JACOBS: Seventeen's a minimum, though.

MR. MORGAN: Yeah, 17. So we threw that 17 in, and the majority of the projects are going to be, you know, more 20 year.

And in going to the next slide, next page 4, you know, we can't emphasize the first bullet point enough. You know, the borrower's affordable developer experience and financial strength, basically their track record. So if we have someone that -- and it could be subjective, but still we -- we look at, you know, how many projects do they have in their portfolio, financial strength -- and of course that's a snapshot in time, but they have a track record of -- of -- of providing or providing affordable housing and/or a track record of taking care of the past balloon payments.

So the larger nonprofits will probably be the ones -- the Bridge's, the Mercy's of the world would be the one playing in this arena.

CHAIRPERSON JACOBS: Yes.

MS. PATTERSON: What's the percentage of your loans in your portfolio that have like gap financing that defers -- deferrals, and is that an issue when you come to recapitalizing and when you're like -- is there HCD financing or local government financing?

MR. MORGAN: You're stealing my -- it's on the next page, but, yes. So we do have deals in our portfolio that have subordinate financing, soft financing, Citi being one of them and --

MS. PATTERSON: What percentage would you say? Is it an overwhelming majority, a small percentage?

MR. MORGAN: No, it's -- I think it's less than -- and I know Chris Penny is here, asset manager, but less than 20 percent, 25 percent, that this could affect. I know on some deals that HCD may have, a balloon may or may not be allowed, but we know -- but those deals are -- there's not a -- those are maybe ten to 13 of those deals that may -- and they may just have to go fully amortized.

MS. PATTERSON: And as you're thinking about going forward and being more creative and innovative, is there opportunities to marry it, your product, with a product that is deferred, therefore you do become cheaper money?

MR. MORGAN: Yes. Yes.

MS. PATTERSON: Just a thought.

MS. SOTELO: You mean like having an HCD program give preference points to a CalHFA loan program that you could use --

MS. PATTERSON: Right. So that those moneys are going together, so that you're making your money cheaper, and you're being more competitive because there's already money going out the door -- it's aligning your priorities.

MR. MORGAN: Yes. And we've initiated those discussions with HCD and their department of financial assistance folks.

MS. WHITTALL-SCHERFEE: Right now we are reviewing our UMRs, which are our underwriting guidelines. And one of the requests I've made of Jim separate and apart is that when they do figure out their underwriting requirements, that they share them with us, because it's something that we are examining to figure out if we want to change our prohibition against balloon loan payments -- or balloon loan structure.

MS. PATTERSON: I would have to imagine it would be very helpful for your underwriting guidelines to be compatible because it's all -- if it's state money and there are state priorities, then we would like those underwriting guidelines to be compatible moving forward.

MR. MORGAN: And we've been talking about that for the last 60 to 90 days.

MS. SOTELO: I think it would be really powerful in terms of, you know, creating partnerships for nonprofits and having them take advantage of the program that marries both HCD and CalHFA.

But, Jim, your primary market for this product, at least right now, are those 31 expiring --

MR. MORGAN: It's our -- it's our focus. Yes, it's our focus.

MS. SOTELO: So it's not really a new product, it's a recapitalization product for that.

MR. MORGAN: Yeah, it's a modifica- -- it's a selection under our preservation loan program. You can go fully -- you know, full -- fully amortized and our rates are going to be slightly -- are probably going to be 30 basis higher or you can select this carve-out for just this abbreviation, the abbreviated term, and here's some other requirements that are part of that.

MS. SOTELO: So maybe if you're able to do a report back to the Board that looks at the 31 loans in the portfolio and how many of them have subsidized financing from HCD or other localities and then seek some sort of partnership waiver with those, you know, entities that allows the recapitalization product to actually make sense for the developers, that way when you launch this program, you add to that. You know, kind of a package deal.

CHAIRPERSON JACOBS: And I think just for our own edification, if you would just show what the other options are that the developer might have, you know, private loans, whatever else is out there aside from our product, what their decision point is.

MR. MORGAN: Okay.

CHAIRPERSON JACOBS: Any other questions?

Thanks for that presentation. Do we have another slide there? I didn't actually look at the PowerPoint.

MR. MORGAN: There's only -- there's only the -- I put a sample on there, if you're -- if you're interested today.

MS. CAPPIO: We have a sample there.

CHAIRPERSON JACOBS: There we go. Perfect.

MR. MORGAN: So it's pretty self-explanatory, you know. We could -- we could -- we could go up to a 90 percent loan to value, so we have a $10 million appraised value, max -- current appraised value. We can go up to 90 percent. And then if we did a 35/17 -- and as Janet mentioned, two years rehab, 15-year perm, our rate would be around 5.10, and there's our debt service coverage. In year 17, if you pass that out, you're about, you know -- we figure about 70 percent of the outstanding principal balance, and your projected LTV without appreciation. For HUD, we would look at, okay, cap rate, what would we see trending up, high cost areas, you know, suburban, rural, projected debt service coverage, if I was to run this out, projected interest rate, stressing -- a stress rate of 9 percent. I know HCD, Laura informed me, they use 10 percent, but their loans are --

MS. WHITTALL-SCHERFEE: But that was on the most recent --

MR. MORGAN: The most recent ones.

MS. WHITTALL-SCHERFEE: -- that came to us. Actually, it was the bank that used 10 percent.

MR. MORGAN: The bank that used 10.

And in assuming that we did a pretty significant amount of rehab, 30 -- $30,000 a door, the condition of the property would be above average and what would be -- that's the marketability piece that HUD's looking for.

MS. FALK: How are you getting your projected debt service coverage so high? What are you using as projected increases in income and expenses?

MR. MORGAN: Two and a half and three and a half, trending up. With regards to income, two and a half and expenses, three and a half. And then if there's Section 8 -- this was a Section 8 project, so wanted to show you a good project. If you --

MS. FALK: -- about year 18.

MR. MORGAN: Yeah, well, that's why year 17 --

MS. FALK: It's so high.

MR. MORGAN: -- where it's at if the Section 8 will go away, it drops completely, yes.

And for us, you know, this is going to require much more analysis, much more underwriting scrutiny for these type of deals. And the quality of the borrowers is going to be very important to us.

MS. SOTELO: So, Jim, as part of the report back, can you from your portfolio analysis tell us how many of them are nonprofit versus --

MR. MORGAN: Sure.

MS. SOTELO: -- not nonprofit?

MR. MORGAN: Sure.

CHAIRPERSON JACOBS: And what type of affordability too --

MS. SOTELO: Yeah.

CHAIRPERSON JACOBS: -- would be interesting to see.

MS. SOTELO: And then you mentioned 2031 15-year compliance portfolio as well, so I don't know if you want to report back on that, but I don't know how many loans that is.

MR. MORGAN: It's about 150.

MS. SOTELO: So maybe just focus on the 31 projects.

MR. MORGAN: But we can give you what our credit projects, what are maybe, you know == what the rent structure is. and overall that's not hard to do. We can get that for you.

MS. SOTELO: I think that -- I don't think that we necessarily need the details as much as we need, you know, a hundred percent under 60.

MR. MORGAN: Yeah, that's what we'd do. Okay. Thank you.

CHAIRPERSON JACOBS: All right, thanks.

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Item 6. Reports.

CHAIRPERSON JACOBS: All right. Let's move on to our reports. Who's covering the delinquency? I mean, it's all --

MS. CAPPIO: If there's any questions --

CHAIRPERSON JACOBS: Any questions on the reports?

MR. GUNNING: Can we get an update on just where Keep Your Home -- the report that Di wrote up.

MS. RICHARDSON: I'm sorry, did you have a specific question that you wanted me to address?

MR. GUNNING: Well, I noticed that the report that you wrote to Treasury == and it really talks about how many people have been served, all the good stuff, just overall.

MS. RICHARDSON: Yeah, it's actually going pretty well. I've, you know, sort of gone back and forth about what to provide to you because I've tried to not create additional work for my staff and have them duplicate. So we originally thought we would be -- you know, we could -- if the CalHFA MAC Board meetings were first, I could provide you some of the same information, but that meeting is actually next week so we're putting that together now, and your information was due ten days ago, which I didn't have ready ten days ago. So I actually -- after thinking about it, you know, I do have to file these quarterly reports with Treasury, and they are detailed. So what I would like to do is just provide those to you each quarter. And Victor and I actually spoke about this morning, and, you know, there is a lag between the end of the quarter and when the report is done because we have to sift through all the information.

So the report that you have in front of you now is for the first quarter of the year, which ended March 31st. The second quarter just ended June 30th. That will probably be ready -- that report will probably be ready mid-August, so we'll -- I'll go ahead and e-mail those to you when it's done. And then that will also be in the next Board packet.

But as far as, you know, the status of the program, it's -- it's going well. It continues, you know to -- there are some banks that are slow accepting the money, and, you know, I can't always control that, although we do hammer them as hard as we can. As of this morning, we've assisted about 42,000 homeowners for over $723 million. So the money is definitely going out the door.

The biggest part of our pipeline now is the principal reduction, and the reinstatement. The unemployment program has slowed down a little bit, and I think that's because fewer people are collecting unemployment, and we've really picked that bone pretty clean for the people that are receiving it, although we continue to have flyers in every mailing that goes out. Every applicant for EED benefits gets a mailing from Keep Your Home, and we also mail to the WARN lists, which when a company is thinking about having a large number of layoffs, they have to file a WARN report, so we always contact those companies directly to make sure that they know about the program.

There are two big MHA that -- the Making Home Affordable, the big federal gorilla. They're having two events later this month, one in Sacramento, one in Riverside, that we'll be participating in both of those.

We've been working very closely with Wells Fargo. They've had a number of events recently. Those tend to be successful when we can partner with lenders to go out directly.

We are in the middle of a very aggressive television marketing campaign. I don't know if you've seen the ads. They're on a number of stations throughout the state. And also we are pursuing digital media, which these -- I call them stalker ads. So like if you like click on something, pretty much every time I'm on my computer now, a Keep Your Home banner pops up. And we're finding that the click through rate on that is pretty successful.

On the -- from the TV campaign, we're getting about 300 calls a week from that, and that's resulted -- about a third, maybe a little bit more than a third of those are actually resulting in homeowner action plans and real applications, so we're targeting those, we think, to the right people and, you know, getting a good pull through.

Anything else?

MR. GUNNING: So there's still about, what, 1.2 billion left?

MS. RICHARDSON: Well, remember we also, you know -- that we do have administrative expenses that we've had to pay, so we're about halfway through the money, I think.

MR. GUNNING: A billion left?

MS. RICHARDSON: Um-hmm. Probably a little bit less. I don't have the number in front of me, but, yeah.

MR. GUNNING: It was interesting to note that mostly black people are using this program.

MS. RICHARDSON: Yeah, did you note that?

MR. GUNNING: I did.

MS. RICHARDSON: Thank you. Yeah, we, you know --

MR. GUNNING: It's important to me.

MS. RICHARDSON: I know. Well, you know --

CHAIRPERSON JACOBS: It begs the question of language. I mean, are we doing enough in Spanish?

MS. RICHARDSON: Actually, that's -- we have -- we're constantly looking at those numbers, and we are again hitting Univision, and there's another Hispanic station that I can't think of the name of.

MR. GUNNING: Telemundo?

MS. RICHARDSON: No, that doesn't sound -- I can't remember, but, yeah, we do look at that and, you know, try to --

CHAIRPERSON JACOBS: The 24-month numbers are pretty good. Are you doing education classes when they -- when people are working through a recast plan or --

MS. RICHARDSON: We're really not because I can't really require it as a condition of the assistance.

I think the other thing that I would add is that we actually just the last couple of weeks -- you know, we also partner with local counseling agencies outside of our central processing center. We just had four training sessions throughout the state to make it easy for them to get to us from wherever they were, and we held all-day sessions with them, again, going over the programs in great detail. Because, you know, they haven't all kept up with the changes, and there's a lot of things that these programs can offer their clients that they weren't aware of, and we've made it easier for them to hopefully go back and, you know, take a look at their clients that might not have qualified in the beginning but that should qualify now because of some of the changes that we've made, particularly, you know, the -- if you're over -- if you're 120 percent LTV, that is a qualified hardship, and that should be pretty easy to pick.

And so I think that those counseling agencies were very excited about what we talked to them about. And we do -- if you've been on our website, we have a scorecard for the lenders, which has been pretty effective in, you know, one of them will say why are they doing more loans than we are and sort of created some competition among them. And we have a similar scorecard that we've rolled out to the local counseling agencies that I think will also -- you know, they'll -- some of the counseling agencies have been very successful with this program, and that will be very clear. And they'll -- you know, the others will be able to see that it can be a very successful program for them.

CHAIRPERSON JACOBS: Anything else? Dalila.

MS. SOTELO: Yeah, I just have a couple questions and just one comment. On the report attachment, the third page in where I think you do talk about the ethnicity, just to note that you did have about 10,000 Hispanic/Latino borrowers compared to about -- you know, so I think it is -- it is working on some level with the Latino market because that seems to be a pretty high number compared to some of the other categories. So I just wanted to kind of point that out for you.

MS. RICHARDSON: Right. When we look at in the perspective of the -- compared to the percentage of population in the state, I think that's where it looks like it falls short, but we do -- I mean, we market in Spanish. We market in Chinese, in Korean, in Tagalog, in Russian, you know. We're open to advertising in any language.

MS. SOTELO: So one of the things -- and maybe you have it here, but, you know, maybe you can just point to us or just tell us or next time report on it, what -- there is a -- there is a percentage of foreclosure throughout the state of California, and there are measurements of foreclosure in different communities. Can you map our products or the use of our product relative to those foreclosure rates?

MS. RICHARDSON: I -- I don't have a chart that specifically shows a comparison in that way, but, again, if you go to the Keep Your Home California website, there under the reports and resources tab, there is a map of the state of California, and you can click on any county, and you can see exactly how much assistance we've done in that county by program and by dollar amount.

MS. SOTELO: Yeah, but I'm trying to create a correlation between what we've done and what the need is.

MS. PATTERSON: Yeah.

MS. SOTELO: That's the kind of analysis I'm looking for. Because I think that we can market it and should market it, and, you know, everything that you've been doing is really amazing, but I think that there has to be a correlation between what the need is and where the need is most, you know, dire and where we're actually, you know, providing the loans.

MS. RICHARDSON: Yeah, let's -- can we chat about that so I'm getting you exactly -- I'll give you anything you want, trust me, but I can tell you that in those areas that do have the higher foreclosure rates, we will target more marketing in those areas. So, for example, the television marketing that's going on right now really isn't happening in San Francisco because it's not a really big issue there. But it's very concentrated in the Central Valley and Sacramento and in Los Angeles, you know, things like that.

MS. SOTELO: And I just noted that on page 7, it seems that most of the funds have gone to the unemployment mortgage assistance --

MS. RICHARDSON: That's correct.

MS. SOTELO: -- versus the principal reduction, and I'm wondering if that's a function of, you know, the direct mailer that you guys have available through EDD versus what the need is. And maybe, you know, we can look at a direct mailer for the principal reduction program, that that might have the same effect.

MS. RICHARDSON: A couple things. The unemployment program is absolutely the easiest program to qualify for, and the banks have to do nothing except take the money. We make the full payment up to $3,000 a month, and they were all in on that one from day one, give me, give me, give me.

The principal reduction program has gone through significant changes. It started out we required a match from the banks. We were getting nothing. We eliminated the match requirement. Participation has picked up significantly. We now have about 125 banks participating in that program.

There are numerous branches on that PRP spectrum that -- so, you know, in order to get the money, we require that the loan to value be less than 140 percent after our assistance is provided, because, again, we don't want to give somebody a hundred thousand dollars and just have them walk away.

And our goal is also to have them have a sustainable payment, so we require that their payment be less than 38 percent DTI, which is more generous, I think, than a lot. You know, most benchmark it at 31, but we recognize that this is a lower income population, and they can stretch a little bit further.

We can do -- our money can be applied directly without any kind of a modification from the bank at all if we can meet those thresholds. It can done as a curtailment. It can be done as a recast, and it can be done with a modification.

Obviously when a modification is needed to get under that 38 percent DTI threshold, that's the hardest to get the bank to do. It's hard to get the bank to do that, and it's hard to get the homeowners to get all their documentation into the banks to facilitate that modification. That's one place that we think that the local counseling agencies are going to be more and more helpful, so those areas are areas that we have seen pick up dramatically.

We have tried doing direct mails for the PRP program. We recently tried another one. We took a list from CoreLogic, homeowners that met our criteria, you know, that were about 140 percent underwater, and their return rate on that was dismal. These were direct mailings from Keep Your Home to homeowners that we knew qualified, and we probably had less than 30 responses. So direct mail doesn't seem to be the answer.

We do this -- every caller that calls us, we say, "How did you hear about us?" The number one thing is "My lender told me about you." They trust that, for some reason. They don't really trust their lender, but if their lender tells them about us, they trust that. So we have been very, very aggressive in trying to have co-branding efforts with lenders. We've been working with Fannie Mae to get them to pressure the lenders to do some co-branding with us, and that's actually a little bit more successful.

MS. PATTERSON: I think you and I had talked about this, Di, but you don't take into account the seconds that people have. And this is hard work. I get that this is hard work. And you're looking for ways in which to facilitate this, and I don't know if that's a regulatory reason, if it's a guidance reason. And the reason I bring this up is because I get the direct mailer sometimes isn't working, and you're hearing from the lenders. And there may be an opportunity -- because the class of folks that we're talking about, a lot of them have silent seconds or downpayment assistance, because that's where it went. Local governments gave downpayment assistance or silent seconds to low income people. And they gave it for rehab, whether it was CBDG funds or something, on the second. And so when you're looking at this, they're underwater.

And so if there's a way to partner with local governments and local governments will come in and ask the lenders, then local governments are getting paid off some of this. You're reducing the mortgage because you're helping them pay down not just the second and --

MS. RICHARDSON: Right. That's been something that Treasury has not embraced, Department of Treasury, because there is no payment on that loan so it does not result in an affordable payment. But we have pushed that pretty far. We -- our most recent changes that we were able to convince Treasury to accept allow us to include forbearance in that -- in that balance, because, you know, that could be part of the first mortgage. So that -- so our -- our principal reduction money can be used to -- you know, it has to pay down the interest bearing principal first, but it can also be used to pay off part of that forbearance.

The reason we pushed so hard on that is, you know, there are a lot of people that should have been given principal reduction early on, and they were given forbearance, and we'd like to have the opportunity to kind of correct that to a certain extent.

We do have a program through the Community Housing Works of San Diego. It's a program that they administer where they can extinguish seconds, but they have to be amortizing. There has to be a payment. You know, having a homeowner come in and say, "I can't afford my home because I have this loan I don't have to make any payments on" is a little hard to swallow.

CHAIRPERSON JACOBS: Any other questions on this?

Good suggestions. Thanks.

Item 7 is actually going into closed session. So let's go into closed section.

MR. JAMES: Mr. Chair, did you want to report out on -- have the chair and executive director comments prior to that? I think that closed session will be the conclusion.

CHAIRPERSON JACOBS: Oh, you know what, then let's do that then. Let's hold off on the closed session.

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Item 3. Chairman/Executive Director comments.

CHAIRPERSON JACOBS: Just -- I guess I'd like to hand the floor over to Claudia just to make some directional comments in taking the Board forward.

MS. CAPPIO: Sure. I appreciate that.

Of course, a couple just updates for the Board. The cost study, it does actually exist. We had a great meeting with our advisory committee in mid-June and received some comments and feedback that we are now responding to, so I expect those revisions to be complete. And as soon as the study's out, I'll send you the link or actually a personalized copy.

The CalVets, as you know, Prop 41 did pass. We've been working with CalVets, HCD and CalHFA. We've done a lot of good work and are really primed and ready to get the notice of funding availability out this month as well as to hold public meetings across the state regarding the funding that's available, the priorities that we believe are the most appropriate and then obviously asking for feedback and comment on that. So that's well under way. If you're interested in finding out the specific schedule, I will be glad to send that to your e-mail to you.

And then finally, the budget. We do have a budget, which is always great before the deadline. And we were able -- we did very well. Housing did very well on two fronts. One, we got a hundred million dollars of General Fund moneys to add to MHP and a number of other HCD programs. And we also are in line to collaborate with other agencies for some cap and trade revenue, $130 million of cap and trade. So we had good news, and it's housing specific, so I look forward to furthering those initiatives.

I would also like to make sure that you all know specifically about the leadership transition. It's kind of like musical chairs. But at this point, I will be sitting on the Board at the next meeting as the HCD director, and Tia will be sitting as the executive director. The Speaker will need to make a new appointment, and they know that. And I -- Tia and I will be taking our respective oaths on August the 8th. So Tia's first day at work at CalHFA will be August 11th. I plan to at this point just hold the fort steady in both places like I have been the last couple of weeks, but I am moving my office over to HCD in the coming weeks, so I'll dust and everything, don't worry.

In terms of just parting shots, I recently had had an insight to look at my notes the first couple of weeks on the job in 2011. And I remember thinking, wow, I don't really know anything about finance. What -- I guess I better develop some priorities. So I thought that was likely -- it was more likely that I would not get direction from the Governor, and we've always had this kind of relationship where I just go for it. Most of the time it's right, and sometimes he says no, so I just decided, "what the hell."

So I had five priorities, and it was interesting to look at them, because they've held steady, and I will just briefly summarize them. One, I wanted to raise the level of discourse about how important affordable housing is in the state and also about the benefits.

Second and most important, at least initially, was I needed to increase the financial stability at CalHFA. It gave me great pause to walk in here three years ago and figure out how we were in the state we were in. Much better now.

Third, I wanted to increase the number of units of affordable housing, as well as the depth of affordability. And in order to do that, I felt we needed to look at the costs of producing the housing, the organization and operational efficiencies that we would gain across state lines, and also new revenue sources as well as diverse -- more diversity in revenue sources.

I wanted to look at how housing functions across state lines. The Governor had offhandedly remarked, "What the hell's going on, CDLAC, TCAC, HCD, CalHFA, CalVets?" How can we work better together as a state with regard to those housing functions?

And finally, how to connect the dots directly among the housing aspirations that we all have and other key administration initiatives like GDC reductions, sustainable communities and energy use.

So we've done well. I'm really pleased with how far we've come, and the good news at CalHFA is that we're on point, and I've been so pleased and proud to be part of gaining that financial stability, developing a new platform. We're focused on what we need to be doing and actually being able to launch a new single-family initiative as well as all the great work that's been done in multifamily.

I think we're got a great team. They're smart and committed people that know their business, and we just have to carry on.

So, Tia, wild success.

We're out of the woods in one way because we've been so focused on survival. We're out of that survival mode, and in a way that path through the new dark woods is uncharted, and it will be different, because the world and financial context is different.

And as we make this leadership change, I also think that the new position is great because I have the depth and experience at CalHFA. I know what you're about. I know it's important. I know that -- the independence and the kind of work that we all do, and to combine that with the opportunities to really make HCD and CalHFA work together better, couldn't be in a better position to do that. So I look forward to working with you all on that.

And you won't be missing me because I'll be on the Board. As Victor mentioned to me, "Wow, now you know all our secrets." You betcha.

And then I wanted just to leave with a quote because the Governor often does that. Cicero, Frederick Jackson Turner, lately. This one's by Arthur Schopenhauer: "All truth passes through three stages. First it is ridiculed. Then it is violently opposed. And finally it is self-evident."

So I want to work with you and continue working with you to a clear line of sight to that end.

Thank you.

(Applause.)

CHAIRPERSON JACOBS: Thank you for everything.

MS. CAPPIO: You betcha. I've enjoyed it.

CHAIRPERSON JACOBS: And we wish you Godspeed, and I know you'll do great over there.

I think, Tia, at our next meeting I'd like you to just think about a few thoughts and maybe address the Board with just kind of your goals, your vision, how we're going to move this forward. Obviously I think from that budget presentation, we know what the challenge is, and I think you're well aware, better than any of us, to guide us forward, and I look forward to hearing your thoughts.

Any comments from members of the public or staff?

Anything that hasn't been brought to the Board's attention that should?

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Item 7. Closed Session under Government Code Section 1126(e)(1) to confer with and receive advice from counsel regarding litigation in connection with MortgageFlex Systems, Inc., v. California Housing Finance Agency, Sacramento Superior Court Case No. 34-2014-00164768.

CHAIRPERSON JACOBS: All right. Seeing none, I close the public portion of this meeting. We'll go into closed session on the matter. And I look forward to seeing everyone at the next meeting with a new chair.

(Closed session from 11:02 a.m. to 11:39 a.m.)

CHAIRPERSON JACOBS: All right. We're back in open session.

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Item 8. Discussion of other Board Matters

CHAIRPERSON JACOBS: Any other matters to be brought to the Board's attention?

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Item 9. Public testimony

CHAIRPERSON JACOBS: Anything testimony from the public?

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Item 10. Adjournment

CHAIRPERSON JACOBS: All right. With that, I thank everyone, and we adjourn this meeting.

(The meeting concluded at 11:39 a.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 28th day of July 2014.

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

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