STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

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

Tuesday, March 17, 2015
10:00 a.m.

Minutes approved by the Board of Directors at its meeting held:
5-14-15

Attest: [signature]

Reported by: DANIEL P. FELDHAUS
California Certified Shorthand Reporter License #6949
Registered Diplomate Reporter, Certified Realtime Reporter

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
8414 Yermo Way, Sacramento, California 95828
Telephone 916.682.9482 **Fax 916.688.0723**
FeldhausDepo@aol.com

A P P E A R A N C E S

Board of Directors Present

MATTHEW JACOBS
(CalHFA Board Chair)
Co-Managing Partner
Bulldog Partners, LLC

TIA BOATMAN PATTERSON
Executive Director
California Housing Finance Agency
State of California

VINCENT P. BROWN
for John Chiang
State Treasurer
State of California

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

CLAUDIA CAPPIO
Director
Department of Housing and Community Development
State of California

JANET FALK
formerly Vice President, Real Estate Development
Mercy Housing

THERESA GUNN
for Debbie Endsley
Acting Secretary
Department of Veterans Affairs
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN C. HUNTER
Consultant
JCHunter Consulting

A P P E A R A N C E S

Board of Directors Present
continued

TIENA JOHNSON-HALL
SVP, Community Development Finance Officer
BBVA Compass

DALILA SOTELO
Principal
The Sotelo Group

Participating CalHFA Staff

SHERYL ANGST
Housing Finance Officer

DON CAVIER
Chief Deputy Director
State of California

KENNETH H. GIEBEL
Director of Marketing

TIMOTHY HSU
Director
Financing Division

VICTOR J. JAMES II
General Counsel
Legal Division

JAMES S.L. MORGAN
Acting Deputy Director
Multifamily Programs

JOJO OJIMA
Office of the General Counsel
Legal Division

DIANE RICHARDSON
Director
State Legislation Division
and California Mortgage Assistance Corporation

A P P E A R A N C E S

Participating CalHFA Staff
continued

RUTH VAKILI
Multifamily Loan Officer
Multifamily Programs

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Public Testimony

MIKE AWADIS
First Southwest Company

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BE IT REMEMBERED that on Tuesday, March 17, 2015, commencing at the hour of 10:02 a.m., at Burbank Airport Marriott Hotel & Convention Center, 2500 North Hollywood Way, Burbank, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

--oOo--

CHAIR JACOBS: All right, let's start up.
Let's do a roll call, if you please.
MS. OJIMA: Thank you.
Ms. Caballero?
MS. CABALLERO: Here.
MS. OJIMA: Thank you.
Ms. Cappio?
MS. CAPPIO: Here.
MS. OJIMA: Mr. Brown for Mr. Chiang?
MR. BROWN: Present.
MS. OJIMA: Thank you.
Ms. Gunn for Ms. Endsley?
MS. GUNN: Here.
MS. OJIMA: Ms. Falk?
MS. FALK: Here.
MS. OJIMA: Mr. Gunning?
MR. GUNNING: Here.
MS. OJIMA: Ms. Johnson-Hall?

MS. JOHNSON-HALL: Here.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Here.

MS. OJIMA: Mr. Prince?

(No response)

MS. OJIMA: Ms. Sotelo?

MS. SOTELO: Here.

MS. OJIMA: Mr. Alex?

(No response)

MS. OJIMA: Mr. Cohen?

(No response)

MS. OJIMA: Ms. Boatman Patterson?

MS. BOATMAN PATTERSON: Here.

MS. OJIMA: Thank you.

MR. Jacob?

MR. JACOB: Here.

MS. OJIMA: We have a quorum.

CHAIR JACOBS: Great. Thanks, JoJo.

--oOo--

Item 2. Approval of Minutes of September 16, 2014, Board of Directors meeting

CHAIR JACOBS: Let's go to the minutes from the September 16th delightful meeting that we had.

Everyone has had these minutes for a while.

Does anyone want to move to approve

the minutes?

MS. SOTELO: I move approval of the minutes.

CHAIR JACOBS: Do we have a second?

MR. GUNNING: Second.

CHAIR JACOBS: Great.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Thank you.

Ms. Caballero?

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Aye.

MS. OJIMA: Mr. Brown?

MR. BROWN: Abstain.

MS. OJIMA: Thank you.

Ms. Gunn?

MS. GUNN: Aye.

MS. OJIMA: Ms. Falk?

MS. FALK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall?

MS. JOHNSON-HALL: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Sotelo?

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs?

CHAIR JACOBS: Aye.

MS. OJIMA: The minutes have been approved.

--oOo--

Item 3. Chairman/Executive Director Comments

CHAIR JACOBS: Mr. Brown, would you like to say hello and introduce yourself to the Board?

We're glad to have you on board here.

MR. BROWN: Sure. Glad to be here.

I am the backup for Tim Schaefer on this assignment. But there are many familiar faces here, because I have a long, rich history in state government.

Just for the public and for the other Board members, my last state assignment, I was Chief Deputy Director of the Department of Finance. So I did three very difficult budgets for Governor Schwarzenegger. Was COO for State Controller Wesley. I spent almost nine years as part of CalPERS' executive team.

And I did leave CalPERS because of my disagreements with Mr. Buenrostro over management and running CalPERS. And he will be sentenced on the 13^{th}.

And I've been out of state service for the last six years. I've been CEO of Alameda County Retirement

System and CEO of Santa Barbara Retirement System.

I'm glad to rejoin state service for Treasurer John Chiang. I look forward to working for him for the next four years.

Although this is not one of my primary assignments, I have a number of assignments, including the Administrative Deputy for Treasurer's office, as well as CDIAC, hospital financing, and all the educational financing. And because of my previous background, I'm pretty much the backup for most of the financing for you.

So I'm glad to join you today, and I look forward to the discussion.

CHAIR JACOBS: Thank you.

I think on our agenda, we've got the Executive Director's comments. But we're going to save that for your general report, I think.

MS. BOATMAN PATTERSON: Yes.

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Item 4. Report of the Audit Committee Chairman

CHAIR JACOBS: So let's jump to Michael, the Audit Committee report.

MR. GUNNING: Sure.

Thank you, Mr. Chairman, Members of the Board. I guess it has been a while, but the Audit Committee came down and diligently met, even though the meeting was canceled. But we were here, and heard from our auditor, CliftonLarsonAllen. And it was the audit of the Housing Finance Fund and the Single Fund.

In that audit, there were two findings.

One was the overstatement of an allowance for a loan loss for the single-family mortgage receivables in the amount of $39 million.

And the second was with Section 8 Housing Assistance Program for six out of 18 files that were found, there was some problems with sending those to the owners of the properties.

They've been corrected. It's interesting to report that staff actually found the $39 million error, and has subsequently figured out how to correct that going forward.

Before I continue, we talked about a couple things, but I didn't know if any of the other members wanted to share their thoughts with the Board.

Dalila or Matt?

CHAIR JACOBS: I guess my one question is, you know, the auditors did their job; and there would have been no way, the way they were assigned to do their audit, to have found the overstatement of reserves.

MR. GUNNING: Right.

CHAIR JACOBS: And, by nature, this is a

conservative agency.

I guess one question would be -- and this may be solved by the overall assessment that the Director has going now, of just the various business silos. And is there a way that we could have found this earlier? Probably not. But I think the overall assessment of the Agency is the right step, just so that we're looking at the different silos and understanding who is accounting for what.

And it may be helpful for some of the new folks, particularly now that we have a new Treasurer, just in the next agenda, and send out just an org. chart, so people can understand what the different business complements are. And let's make sure that there's no overlaps.

I think this was an excess of conservatism, but -- and that may solve it.

Would you agree with that?

MS. SOTELO: But it was in our favor.

CHAIR JACOBS: In our favor, yes.

MR. GUNNING: It was conservative, as you say.

CHAIR JACOBS: Yes.

MS. SOTELO: And I think just to your point, I think that one of the things that we need to figure out is how to operationalize the checks-and-balance system, and having a third-party auditor, and understanding how to hold them accountable for performance under their contract; and understanding, you know, really what they're looking at, and how to report back discrepancies before it gets to the point where, you know, it's not going to be in our favor and it's too late to catch.

So I think that if we can figure out a way, the Director can figure out a way to operationalize those checks and balances; and then a metrics for performance evaluation of the auditor, I think that would be helpful.

MR. GUNNING: We also have an outstanding issue that Victor reminded me of, which is almost a year ago we looked at the charter for this committee and we haven't picked that up since our roles and responsibilities and duties. So I think I'm going to try to schedule a meeting for us here in the next three months to talk about all this stuff, and then also report out to the Board the result of that.

CHAIR JACOBS: And it may make sense, just with the organizational overview to share that with the Audit Committee specifically, just given what happened before.

MR. GUNNING: That's it, Mr. Chairman.

CHAIR JACOBS: All right. Great. Thanks.

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Item 3. Chairman/Executive Director Comments ***continued***

CHAIR JACOBS: Tia, let's jump into your report.

MS. BOATMAN PATTERSON: Good morning.

I think I want, as a first order of business, I wanted to bring up my chief deputy that was recently brought on board in February.

So if Don Cavier could come up and join me.

And I think this gets at an issue we were just discussing about the business components and, operationally, some of the things that we're doing.

And I'll give Don just a brief few minutes to introduce himself, tell a little bit about his background; but you'll all be pleasantly surprised and very pleased that we brought him on.

MR. CAVIER: Good morning, Chair Jacobs and Members of the Board. I'm Don Cavier. And I come to the Agency by way of the Sacramento Housing and Redevelopment Agency, where I've spent the last 17 years of my career, the last eight of which were as the Director of Finance for SHRA.

And for those of you that don't know SHRA, it is a joint powers authority between the City and County of Sacramento. And we administered two housing authorities, two redevelopment agencies, and administered the federal entitlement funds like CDBG and HOME. And so we did a lot of gap financing and affordable housing development, issuing conduit bond issues, and providing the gap financing on some of those housing deals.

And so I'm very excited about the opportunity and grateful for the opportunity to serve this Board and the Agency moving forward and developing affordable housing up and down the state of California.

Thank you.

MS. BOATMAN PATTERSON: He is being a little modest. He was an auditor in his former life.

MR. CAVIER: Oh, yes. That's right.

I forgot to mention, prior to SHRA, I worked in the mortgage banking industry and underwriting, and internal audit as well. And I'm a certified internal auditor.

MS. BOATMAN PATTERSON: How many plus years of awards did you receive as Director of Finance?

MR. CAVIER: We received, I believe, 23 years in a row, consecutive years for the Government Finance Officers' Association's Award for Excellence in Financial Reporting; and for the three years that we actually applied, we received the Meritorious Budget Awards from the California Society of Municipal Finance Officers.

MS. BOATMAN PATTERSON: You see my joy.

Item 5. Mid-year update on business and operations of the Agency

MS. BOATMAN PATTERSON: So early on, when I first came on board, one of the first things, orders of business that we took on was hiring an outside consultant to provide an organizational assessment, so that we could make sure that our operations and our staffing were matching our business models.

And so I'm pleased to report that the very first phase of that organizational assessment has been completed.

We've already found some things that were immediately apparent to us, and we've implemented on our single-family side. We did things as simple as moving production and lending on one floor.

We've implemented some of our I.T. changes, so that we could take in electronic files. And some of those things were actually, early on, observations of the assessment. And I am pleased to report as of February, we hit a high in our single-family lending of $50 million. And that's the highest that we've been, post housing crisis.

So just implementing some of the things from the organizational assessment are already coming to fruition.

So I will give more about the organizational assessment in May, when we have further details out. And I'll be sharing that with the Board prior to May. But we have been pleasantly surprised by some of the things that we're finding and some of just the grouping and just aligning things that we're doing.

One of my primary goals as the executive director is to focus on our core functions as an agency, and building our capacities in our multifamily programs.

We want to do this in three ways:

Through collaboration with our local partners and our state partners. I'm pleased to report that we have continued our collaborative relationship with our sister agency, Housing and Community Development, and the Department of Veterans Affairs. We have successfully worked together. And HCD recently put out a NOFA on our Prop. 41 funds.

We are also working collaboratively with the Caltrans agency, and we're working on an affordable housing program with the 710 freeway.

And we want to be able to begin aligning our resources, both internally and externally. And so we're looking at, those ways, and so that we can make sure that we're meeting the policy objectives of the state.

One of the ways in which we have already started those discussions, is meeting with TCAC, CDLAC, HCD, and CalHFA. We've already started a series of discussions about identifying the State's policy priorities in housing. And it's a very exciting time.

Also, we want to make sure that we are taking advantage of all of our financing tools available to housing finance agencies. So I had the opportunity to attend both the October annual National Council of State Housing Agencies Conference, and I was in the Legislative Conference in March. And so one of the biggest things coming online now is our Multifamily projects, in which we will be taking advantage of the federal financing bank HUD partnership. And I think we've nicknamed it the "synthetic Ginnie Mae." And you've probably all heard me talking about this. But this is going to provide very competitive financing on our Multifamily side, and getting us back into the lending game.

So far, there have been two jurisdictions, two states that have taken advantage of this project, and both of those states they were both more simpler transactions in which it was a refinance, and that was the City of New York Housing Finance Agency and the State of Massachusetts Housing Finance Agency.

And then when we met with Treasury when we were in Washington, D.C., last -- was it two weeks ago? I'm trying to remember. It was early March. Treasury was very pleased that we would be the third in line to take advantage of that project -- take advantage of that new financing tool.

And you'll be hearing more as staff comes online and talks about the Ocean View Project, because that's one of the projects that we're going to be using that financing for; and to be the third in the nation to use this new financing tool is pretty exciting. Plus, ours is going to be a little more complicated because it's not just going to be a refinancing.

So there will be two projects that we have in the pipeline that we know right now we will be taking advantage of these -- that financing.

I will be providing an org. chart, because that's one of the things the organizational assessment has -- is helping us to update and modify, so we'll be getting that to you. And we won't wait until the next meeting to get that to you. We'll make sure we get that to you. As soon as they're getting updated, we'll get that out to the Board.

So we are looking at some of the operational checks and balances. That is why Don was brought on board, and to be my right hand and to help run the Agency.

And so with his background in both policy programs, finance, and operations, it's a good mix to have on our team. And so we're very excited about that.

So Don will be able to delegate some of the day-to-day operations, and he'll be able to look at some of our internal operations and continue on with the organizational assessment as I reshift and focus my attention and work on more policy and programs.

And so that's when I want to be able to engage the Board on some of our policies and programs going forward. We want to be able to, like I said, use our internal resources more wisely. So I wanted to go over just briefly the chart that we had.

In our presentation, we'll make sure that we are actually providing a readable copy. Jan and I had a conversation before the Board meeting. And just another -- a bar or two that actually talked about midyear revenue and a total, and what we projected, and then what we actually brought in. So let me just provide those dollar amounts because it's not reflected on the chart without having to add it up and figure it out.

But our midyear projected budget that we thought we would receive in single-family and multifamily revenues was $24.9 million that we anticipated to bring in by midyear. The actual amount of revenue that we have brought in is $25.2 million. And we actually also had a one-time funding due to some prepayments of $42 million. So the actual amount of revenue we've brought in to date or through the midyear is $67 million. And so we're doing quite well. We had planned or projected, like I said, that we would bring in 25.2. A majority of these funds are from legacy revenues. And so our goal is to make sure that when we're doing projected new revenues, that we're actually basing that on data, and we're not just -- so we have some data behind us on the single-family side because we've had a year of lending. But on the multifamily side, what we're going to do is we're going to bring forward actual pipeline projects, so that we can have -- we've been kind of guessing because we were out of the lending game. But now that we're trying to get back into the lending game, we'll be able to have more realistic numbers on the new revenue side. So that's very exciting.

Lastly, I want to really thank Claudia Cappio. There is no way that I could be sitting in this chair and making some of the progress we have made if she had not been a soldier with the team behind her to get us on the right track.

When we were looking in 2009 at this Agency, I think one of the things, when I was sitting in your shoes on the other side of the table, Claudia came forward, and she said, “I don’t know if I’m winding up or winding down, but I’m here to do the hard work.”

Well, she was winding up. And I’m thankful that I’m able to sit in this seat after she sat in this seat. There was $3.5 billion in variable-rate debt that we couldn’t provide the credit for and we didn’t have the liquidity. And so over the years, that $3.5 billion debt, we’ve had some credit replacements that have come in on our Multifamily side, that debt is down to $572 million. And we will be out of that program by the end of the year.

(Applause)

MS. CAPPIO: Yes, Tim wins the bet if it’s early.

MS. BOATMAN PATTERSON: So when we presented to Treasury, when I was in D.C., they were elated. They were absolutely elated. They were very pleased with the work that we have done.

So thank you to my sister, Claudia Cappio.

And that concludes my kind of overview. And I’m available, should you have any questions.

CHAIR JACOBS: Thank you.

Any questions?

MS. CABALLERO: Tia, the savings that you show are from vacancies and for contract costs.

MS. BOATMAN PATTERSON: Yes.

MS. CABALLERO: Talk a little bit about the contract costs that you've avoided.

MS. BOATMAN PATTERSON: I believe we had some -- we had budgeted for some strategic priority -- a contract for, like, some strategic policy priorities. And then Don is coming and giving me a cheat sheet as we speak.

So, okay, what contract was that? Do we know?

We have some consulting and professional services contracts that we didn't go forward with. And that was about $700,000.

We also had a supplemental software lending licensing fee, that was $230,000.

And what does "LPS" stand for?

MS. CAPPIO: That's another software system.

MS. BOATMAN PATTERSON: Another software program?

And that was another $400,000.

MR. CAVIER: In savings.

MS. BOATMAN PATTERSON: In savings.

MR. CAVIER: It had accidentally been budgeted for a three-year contract in one year. And so that, in and of itself, translated into a savings that we would have to budget in subsequent years.

MS. BOATMAN PATTERSON: And on the salary savings -- is that $2.3 million?

MR. CAVIER: $2.3 million.

MS. BOATMAN PATTERSON: And that was because when I -- during the organizational assessment, we kind of put a self-imposed hiring freeze and promotion freeze until we kind of got through our initial phase and we knew what resources were needed, where. And so we have now started backfilling positions and putting people and promoting people on an as-needed basis as the assessment has been completed.

So that’s, in part, where the savings came from on the salary side.

MS. CABALLERO: Okay, thank you.

MS. BOATMAN PATTERSON: Oh, and then the housing costs, we had a reimbursement of $230,000. Because we fronted the cash for the housing cost study, between the HCD, CalHFA, and the CDLAC and TCAC. And we received reimbursements back for our share.

MS. CABALLERO: I was just trying to get a sense of whether these are things that are deferred, that are going to have to show up down the road, or whether we just went without --

MS. BOATMAN PATTERSON: We went without.

MS. CABALLERO: -- for the contracts?

MS. BOATMAN PATTERSON: We went without. Bare bones.

MS. CABALLERO: Thank you.

CHAIR JACOBS: Ms. Falk?

MS. FALK: Yes. As I've mentioned before, my concern has been on the revenue side. And I wanted to ask you where you see that going. We talked a couple meetings ago about legacy revenue going down.

MS. BOATMAN PATTERSON: Right.

MS. FALK: And what do the projections look like out in the future, and is there some point in which we will get those projections looking out three, five, ten years?

MS. BOATMAN PATTERSON: Right.

So as part of the organizational assessment, too, there was a lot of angst on everyone's part about new lending activity. And if we did not bring on new lending activity immediately, and there was this feeling of two years; that if we didn't do what we needed to do to bring in additional lending within two years, that we would be wrapping it down.

And going through and doing a comprehensive analysis of our legacy income and projected new revenue, we have a longer tail than that. We have a much longer tail than that. And so that was one of the things that was good to know early on, so we could then, instead of focusing so much on new lending activity and just trying to get things out the door, that we were actually more strategic and more aligning our resources and working with our state and local partners.

And so when you look at that tail, it's more of a six- to eight-year tail, as opposed to a two-year tail. And at some point -- and Tim has brought it up in his analysis; and Claudia, my predecessor, brought it up -- there's going to be this intersection where it's, if you're not bringing in new revenue, you really are eating your seed corn. But we haven't got quite there yet.

And we have a good -- and so what I've represented to staff is, instead of looking at this on a year-by-year basis, because we were basically in crisis mode, we can have a five-year strategic plan. So that's the next step after the organizational assessment is completed, to come up with a true five-year strategic plan in conjunction with the adoption of the statewide housing plan, so that our lending activities are marrying the policy priorities of the State of California.

MS. FALK: Good.

CHAIR JACOBS: Dalila?

MS. SOTELO: Mr. Chairman, I just had a quick comment and just a quick question.

And welcome, Don. I’m very, very glad to have you on the team. Very experienced. So very happy about that.

I just wanted to point out, you know, the summary that you gave us that in February you hit $50 million in the single-family housing side. That’s incredible. That’s fantastic.

And I think I wanted to just ask you, is that a correlation to some of the organizational efficiencies as you reported; or is that, you know, now that our product is easier to use and our third-party vendors are pushing us forward a little bit more in the marketplace? What do you attribute that to?

MS. BOATMAN PATTERSON: I’m attributing it to all of that, Dalila.

MS. SOTELO: All?

MS. BOATMAN PATTERSON: Because I think the fact that we got out and we asked the lenders, we did our lender training, we were there on the ground, we implemented our new software program, we -- all of those things were happening simultaneously.

So I think they all were a contributing factor to us being able to break that barrier and then to have a trajectory that’s going to be going forward.

MS. SOTELO: That's great.

And I would just ask that when you report back on the organizational assessment, if we could just get a sense of what the scope of work was for the third-party consultant, like, what areas were actually looked at, that would just be helpful to us.

MS. BOATMAN PATTERSON: Okay, I can actually get that out to you because I have the scope of work. So I can get that out to the Board members so that you know now what it is that he is working on.

MS. SOTELO: Great. Thank you.

CHAIR JACOBS: Any further questions?

(No response)

CHAIR JACOBS: All right, great.

Thank you.

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Item 6. Discussion, recommendation, and possible action regarding the adoption of a resolution authorizing the Agency's single family bond indentures, the issuance of single family bonds, short-term credit facilities for homeownership purposes, and related financial agreements and contracts for services (Resolution 15-01)

CHAIR JACOBS: All right. Let's move on to the single-family bonds and then the multis.

Who is going to be presenting?

Tim?

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

As Tia said, these are exciting times to be at CalHFA. I think that the questions that we're wrestling with today are very different from the questions that we were wrestling with some three or four years ago.

I'm going to open up with a quick rating update and using this as a segue into covering, really quickly, the progress that we're making on de-leveraging your balance sheet, and also using as a segue into these bond financing resolutions.

Over the last four months or so, we have gotten two upgrades from the rating agencies: The first one that you see here, on the top of this chart, is our single-family indenture. It's referred to as HMRB, Home Mortgage Revenue Bonds.

We received an upgrade last month from Moody's out of the Baa2 rating into A3. And this is a very significant development that I'll come back to in a second.

And then back in December of last year, our Multifamily III indenture got upgraded to AA+. So this actually has the same rating now as Uncle Sam with S&P, which is hard to believe.

So coming back to this upgrade on the single-family side, we now have two single-A ratings for this indenture. And this is now, I think, sort of reachable, if you will, from some of the private banks' point of view, in terms of providing us credit. And we now actually have four banks that have offered us letters of credit to replace TCLP.

So to Tia's point earlier, this particular upgrade I think gave us that final piece of the puzzle to provide the visibility for the end game, if you will.

We kind of always knew that the HMRB would be sort of the drama, if you will, of whether or not we complete this process this year. And now, we can see what that end game is going to look like.

And we have four offers, three of them are actionable. By that, I mean, that the fourth offer is with a bank that has its own rating challenges. So we think we're going to put that one aside.

We're talking to three banks. We're talking to -- I had breakfast this morning with a bank, and one of the credit analysts from a bank -- and he's sitting in the audience, so I wanted to make sure I impress him.

I won't point him out and embarrass him.

So we think we are in very good shape. We think we're in very good shape. We had three actionable offers. We had a meeting with someone yesterday, saying that one of the banks that we're talking to is threatening to offer us $250 million, which would be great. We didn't ask for that much.

The need in this space is about half -- it's $500 million, which sounds less than half a billion. And we now have $325 million, so that gap of $175 million could be provided by one bank or two banks.

So we think that the end is near, in a good way. We can replace CCLP and get out of this reliance on a federal facility, which has helped us tremendously, no doubt. But the commitment to get out of this program from Claudia, down to Tia, has been unwavering. And to get out of it, I think, is a big accomplishment.

So I hope that kind of reinforces sort of the point I've been making to the Board for a good part of 18, 24 months, is that the legacy risks that we have been so focused on three or four years ago, is much better contained. And the focus really should be about the future, which is about lending activities.

And so speaking of lending -- this is my segue into the bond financing resolutions -- so traditionally, we fund our lending activities using bonds, using the issuance of bonds, or specifically, the issuance of private-activity revenue bonds. And most of the time, they are tax-exempt bonds.

So today, the deliberation or our conversation is about bond-financing resolutions, which we typically come to the Board in March and ask for authority for our issuance activities this coming year. But as we've been talking to the Board about over the last couple years -- and Tia mentioned earlier about this new program that's kind of coming down the pike, affectionately referred to as "synthetic Ginnie Mae," which is going to provide a very competitive lending cost for permanent lending in a multifamily space. But on the single-family side, you also know that late lending activities have been using this sort of called TBA model.

So all these financing activities are actually not bond-related. They are using a different technique, which has sort of outstripped the scope, if you will, of these typical bond-financing resolutions that we have come to the Board for authority on.

So the idea that we have -- again, today, our ask is on these typical traditional bond-financing resolutions; but the idea is that in May, we'll come back to the Board and create two separate resolutions: One for single-family and one for multifamily on these other activities, other financing activities that we are relying on.

And to be sure, these are financing techniques that we have separately requested from the Board for authority. So, for example, this TBA model, we requested from the Board in 2013 for authority, and we received authority; and that's why were able to proceed.

But the thought is that they are taking such a big chunk of our lending activities, perhaps we should also wrap it into these annual authorizations in the spirit of open and transparency; and also for new Board members, so that they can sort of appreciate the full scope of what we are offering across the spectrum.

So, again, today we're requesting the bond-financed activities; and in May, we'll come back with non-bond-financed activities.

So, Resolution 15-01. So, what we typically ask for is a single-family resolution to request for the authority to issue bonds for this coming year, and ensure the resolution is broken up into three parts.

The first part deals with Debt-Management Bonds. So this is sort of an area in which we're -- when we talked about sort of replacing TCLP and the need to sort of continue -- de-leveraging our balance sheet, this is the area, Article I, that kind of allows us to do that.

And in Article II -- as an aside, there are times in which, when we do a restructuring of bonds, that we need to pledge some unencumbered assets from outside the bond indentures to make the refunding work. So this particular Article I also authorizes the Executive Director the ability to pledge up to $50 million to make the restructuring work. And I believe that she also needs to provide a certificate that net, net, this is economic positive to the Agency.

So Article II deals with new-money bonds. And the new-money bonds, at the moment, requires the underlying assets to be MBSs, and the bonds will be fixed-rate, and there is no authority to use swaps on those transactions.

The significant thing about that is that this particular Article II is currently inactive. So, again, because the single-family lending activities is going through this TBA model.

And Article III, which is not on my slide here, has to deal with the authority to do -- offering documents and also execute related documents on issuing new bonds or old bonds.

So in general, those are the sort of, roughly speaking, the three articles.

So I'll pause for questions.

MR. HUNTER: Is this date correct?

MS. JOHNSON-HALL: That's the first question I had.

MR. HSU: Which date?

MR. HUNTER: 2016?

MR. HSU: Yes, it is correct, because it's meant to -- it's meant to cover the 12 months from now. For the next 12 months, from today to 12 months from now. Yes.

MS. JOHNSON-HALL: Understood. But if that's a hard date, 12 months from now, you could slip by about two weeks.

MR. HSU: Right. So this is just a shorthand here.

So in the resolution, it speaks to 60 days from our first -- it's good until 60 days from our first meeting, our meeting in March.

So should we meet --

MS. JOHNSON-HALL: Okay, so you have a --

MR. HSU: Yes, so there's a little bit of wiggle room there in the actual resolution.

MS. JOHNSON-HALL: Right. And I just wanted to underline, you said a pledge of up to $50 million, but it's also $50 million, and no more than 10 percent of the refunded bonds.

MR. HSU: That's correct.

MS. JOHNSON-HALL: Okay.

MR. HSU: That's correct. So in general, this is something that we covered before, that we have two large bond resolutions where a lot of our equities are residing. So there is a single-family indenture, HMRB; and there's a multifamily indenture, Multifamily III.

And we also have an unencumbered pot of assets, which are mostly in unencumbered loans. And that is sort of a source that can help us complete the de-leveraging.

The one thing that Victor caught, was that on page 121 of your board package -- this is section 18 of the resolution, there's a typo there. I think on that top paragraph, it talks about Number "14-02." That should be "15-02."

So this particular resolution also authorizes the ability for us to acquire a warehouse line. And the way this is restructured is that we basically say that the warehouse line for single family and warehouse line for multifamily would be under the same cap. And that's why it needs to refer correctly to the multifamily resolution, which is now "15-02," and not "14-02."

Yes?

MS. FALK: Is it, we don't usually put a cap on the new money bonds? It's just an unlimited dollar amount?

MR. HSU: So when we -- there is a cap on how much we apply to CDLAC, which is two resolutions to come. But if we have existing volume cap, that's for tax-exempt. And coupling it with just sort of new that may come this year, that will become the natural cap. But there's not a hard cap in the resolution.

MS. CAPPIO: Hi, Tim.

MR. HSU: Hi, Claudia.

MS. CAPPIO: I wanted to go to -- I mean these resolutions are all clear to me and it's an annual thing. But in terms of what you see -- so this is crystal-ball time, okay, or Magic 8-Ball, whichever you want.

MR. HSU: I love these.

MS. CAPPIO: Right. In terms of what you are looking at, does this give you enough room?

I mean, for the first time, we can take a little more room, I think, than previous years, because we're more -- we have more liquidity. So does this meet the needs or foreseeable needs of what you consider to be the level of activity we're going to be doing?

I know we could always come back for more, but I just want to leave you that, so that…

MR. HSU: I think so.

I mean, I think one of the things that we spent a lot of time talking about is that at some point during the crisis, if you will, we started mixing these bond-financing resolutions with some restrictions on the assets.

MS. CAPPIO: Right.

MR. HSU: So the single-family resolution actually says that the loans we make must be wrapped by the GSEs to make into MBSs. So that kind of crept in here. And on the multifamily side, which we'll talk about in a little bit, we put the restriction on, that they must be at least -- the loans must at least carry this HUD FHA risk share on it.

So the question is that, are those things that we want to continue to sort of live with as a restriction going forward?

And I think that's sort of a good discussion to have with the Board. And we could also have that discussion in light of this other resolution we're talking about. Because this other resolution we're talking about is meant to deal with non-bond finance strategies; and that is a place that we can continue to think about, just the kind of assets that we want to acquire.

You look puzzled, Matt. I'm sorry.

CHAIR JACOBS: No, I'm just thinking about durations. And the one thing on single-family is when we're in a low-rate environment, is like how do we predict the durations? How long are people going to hold onto these, because rates can't go lower. And so it's -- you know.

MS. CAPPIO: I don't know. It recently happened in Switzerland. Just saying.

CHAIR JACOBS: No, I mean, what are we modeling for the durations on these loans? If people might keep them longer than the average? Or is there a way to deal with it?

MR. HSU: We have somebody here to talk about a TBA program, and he knows about this space better than most people I know.

But I think that the single-family MBSs, the prepayment speed is somewhere around 200 to 250 percent PSA. And what that means is about 12 to 15 percent of the loans prepay throughout the course of the year. So if you start with a hundred loans at the start of the year, something like 12 loans will refinance or prepay over a year.

So I think that question of what kind of assets that we want to work with is actually one of the key questions strategically, when we talk -- you know, when

Tia talked earlier about this five-year plan, it's actually one of the much more core existential questions for the Agency. Because the Agency is very much structured for a certain time -- a certain kind of loan, that is whole loan.

We're really not -- there's some other HFAs out there that are structured for sort of acquiring MBSs; but we were structured for whole loans. So as you look across the organization, you'll see that we have loan servicing. Well, we don't have to have loan servicing if we're doing just MBSs. We have certain functions within, that are there only because we're acquiring uninsured whole loans.

And the models that we are using now are a little bit different from that -- what we would build for. And whether or not we want to go back to that or sort of embrace the future -- embrace what we have now, going forward, that's one of the sort of core questions that we need to answer.

Does that help, Claudia?

MS. CAPPIO: It does.

MR. HSU: Okay.

MS. CAPPIO: And I guess I'm going to reserve that when we are all ready to review what you come up with and what that balance is. And I presume that will be part of the business plan and five-year plan as we move forward, the existential questions.

MS. SOTELO: Well, and I would add to that question the policy implications of our mission, right, and serving the communities that we need to serve --

MS. CAPPIO: Exactly.

MS. SOTELO: -- and having a public policy discussion around the marketplace, and really, who we're serving.

CHAIR JACOBS: And the multis-versus-singles question.

MS. SOTELO: Right.

MS. BOATMAN PATTERSON: It's all of that.

MS. SOTELO: And what regions within the state, you know. All sorts of regions within the state, so…

MR. HSU: Yes, so I couldn't agree with that more. Because if we do MBSs, then we'll have people at D.C. define for us what the credit box is.

But if we do whole loans, we can define our own credit box. And that is sort of a key difference. And if the folks in D.C. don't understand what's going on in California and they continue to define things in a certain way, then we're going to diverge.

CHAIR JACOBS: And I guess, broadly -- Claudia, your department, you have State mandates and State goals on environmental concerns, transit -- all of these things. And we don't want D.C. defining that.

MS. CAPPIO: Exactly.

And I guess toward that end of the larger picture, if I may, we have been talking or bantering about a longer meeting. So when the staff is ready, I would welcome a longer meeting with some of these questions, because it is really critical stuff. We are at the intersection of really needing to figure it out differently. We've all known that, and you're working toward that. And a longer meeting on some of these questions and issues would be welcome.

MS. BOATMAN PATTERSON: Anticipating that was one of the reasons why we did not bring forward those resolutions now, because we figured we'd have the benefit of more analysis from our organizational assessment, we'll have some offsite meetings about business planning, and be able to engage on those bigger policy questions when we bring forth those resolutions. That was our thinking.

MS. CAPPIO: Great.

MR. HSU: I want to make sure that we all know that we have really good friends in D.C., though.

We have partners in D.C.

MS. CAPPIO: They came through for us.

MR. HSU: That's right. We have partners in D.C.

MS. JOHNSON-HALL: Well, I was just going to say, just the rating change alone speaks to the level of partnering and relationship that you have. That is not an easy task for anyone, let alone -- it's actually a tougher task for a quasi governmental agency than it is for any other type of agency.

So congratulations to Tim and Tia. That is phenomenal. Thank you.

MS. BOATMAN PATTERSON: Thank you.

MR. HUNTER: So I'll move adoption of Resolution 15-01, with the correction noted on page 121, line 11, to read Resolution "15-02."

MS. JOHNSON-HALL: And Tiena Johnson-Hall, I second.

CHAIR JACOBS: JoJo, call the roll.

MS. OJIMA: Thank you.

Ms. Caballero?

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Aye.

MS. OJIMA: Mr. Brown?

MR. BROWN: Aye.

MS. OJIMA: Ms. Gunn?

MS. GUNN: Aye.

MS. OJIMA: Ms. Falk?

MS. FALK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall?

MS. JOHNSON-HALL: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Sotelo?

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs?

CHAIR JACOBS: Aye.

MS. OJIMA: Resolution 15-01 has been approved with the correction.

CHAIR JACOBS: Great.

MS. JOHNSON-HALL: Well done.

MR. HSU: Thank you.

Just replying to Tiena’s compliments a little bit. We all stand on the shoulders of giants; and my staff, they’re wonderful.

And I have a lot of support from Tia and also from Claudia. And I think that we made a lot of good decisions in terms of unwinding our balance sheet over the last four or five years, that it’s finally paying off.

In any sense, I feel that these rating upgrades are long overdue; but they kind of came in the nick of time, because we need to finish this process this year.

So good timing is everything.

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Item 7. Discussion, recommendation, and possible action regarding the adoption of a resolution authorizing the Agency's multifamily bond indentures, the issuance of multifamily bonds, short-term credit facilities for multifamily purposes, and related financial agreements and contracts for services (Resolution 15-02)

MR. HSU: So moving on to Resolution 15-02. So this is a mirror resolution but for multifamily. So the articles are structured the same way. Article I is about Debt-Management Bonds. We're dealing with legacy bonds and risks to our new money activities. And here, the difference is that we are actually -- we could actually issue new bonds for Multifamily lending activities; whereas on the single-family side, the new money issuing capacity is definitely dormant.

So later on, you'll hear about this project, Ocean View. So it's quite possible, if all goes well, we'll issue some bonds for Ocean View for the acquisition period; and then it will be taken out, as Tia mentioned earlier, by this synthetic Ginnie Mae program.

And Article III, again, is about the related documents to be executed, like offering documents, things like that, for the issuance of new bonds or for the issuance of these Debt-Management Bonds.

And I believe no typos in this resolution.

There is, as a segue into something that's important, there are provisions in the multifamily resolution for conduit issuances.

So over the last couple weeks, we revised our Conduit Issuance Program a lot, to streamline it, to make it more competitive in pricing. I think that we've had a couple sort of industry insiders look at the program, and I think that generally the reception is very, very good. So we expect that particular program to sort of take off in the next six months or so.

I'll take any questions.

MS. SOTELO: I move approval of the resolution.

CHAIR JACOBS: Do we have a second?

MS. JOHNSON-HALL: Tiena Johnson-Hall. I second.

MS. OJIMA: Thank you.

Ms. Caballero?

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Aye.

MS. OJIMA: Mr. Brown?

MR. BROWN: Aye.

MS. OJIMA: Ms. Gunn?

MS. GUNN: Aye.

MS. OJIMA: Ms. Falk?

MS. FALK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall?

MS. JOHNSON-HALL: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Sotelo?

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs?

CHAIR JACOBS: Aye.

MS. OJIMA: Resolution 15-02 has been approved.

MR. HSU: Thank you.

CHAIR JACOBS: All right, great.

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Item 8 Discussion, recommendation, and possible action regarding the adoption of a resolution

authorizing applications to the California Debt Limit Allocation Committee for private activity bond allocations for the Agency's homeownership and multifamily programs (Resolution 15-03)

CHAIR JACOBS: Let's move on to CDLAC.

MR. HSU: Yes. So last, but not least, is we also request from the Board, at the same time we asked for these financing resolutions, an amount not to exceed for us to apply to CDLAC for tax-exempt volume cap. So we're requesting for single-family, $250 million; and for multifamily, $250 million.

So last year, when we did this particular resolution, I believe someone had asked, it will be useful if we know what we did in the prior year.

So in 2014, we did not apply for single-family volume cap.

As I mentioned earlier, the lending activities is not being financed using tax-exempt bonds; it's being financed using this TBA model. And on the Multifamily side, we receive a $200 million carryover. So both numbers were below what we got authority for. Last year, we also asked for $250 million.

I think that -- as you know, there's a lot of discussions around some of these state-level agencies and departments about how do we better use tax-exempt volume cap, not just in housing but in different sectors. So we are hoping that, you know, one of these times we could be using more tax-exempt volume cap. And that's sort of a conversation we could have over time. But we think that these two caps that we show here, this is sufficient for our purposes this year.

CHAIR JACOBS: Any questions?

MR. BROWN: Yes, one question.

Tim, have you had conversations with CDLAC folks yet in regards to…?

This is pretty standard.

MR. HSU: You mean, have we had conversations on whether 250 is a number that they would approve?

MR. BROWN: Yes, just general conversations about the direction that you guys will go this year.

MR. HSU: Yes. Like, for example, when we say that we didn't apply in 2014, for example, that's through conversations with Sean and his staff, Misty.

So we don't put in an application blind. We put in an application after we talk to Sean and Misty. It's sort of like, we'd like to bat at 1.000. So when we put it in, we get it because we talked to --

MR. BROWN: Having sat on CDLAC, I understand.

MR. HSU: Yes, yes. So we sort of prime the pump and we make sure that we hit it out of the park. So if we apply for a certain amount, we always get it.

CHAIR JACOBS: Any questions?

(No response)

CHAIR JACOBS: Do we have a motion?

MR. BROWN: I'll make a motion.

CHAIR JACOBS: Great.

MS. SOTELO: I'll second it.

MS. OJIMA: Thank you.

Ms. Caballero?

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Aye.

MS. OJIMA: Mr. Brown?

MR. BROWN: Aye.

MS. OJIMA: Ms. Gunn?

MS. GUNN: Aye.

MS. OJIMA: Ms. Falk?

MS. FALK: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall?

MS. JOHNSON-HALL: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Sotelo?

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs?

CHAIR JACOBS: Aye.

MS. OJIMA: Resolution 15-03 has been approved.

CHAIR JACOBS: Great.

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Item 9 Discussion of Security and Exchange Commission's (SEC's) Municipalities Continuing Disclosure Cooperation Initiative

CHAIR JACOBS: All right, we have you for the SEC.

MR. HSU: So I'm not going to press my luck, I'm three for three.

This particular item does not require action from the Board, it's just an update.

So let me first refresh our memories on what this is. So this is Municipalities Continuing Disclosure Cooperation Initiative. So I'm going to refer to it as "MCDC," going forward. It sounds more fun.

So in March of last year, the Security Exchange Commission, SEC, issued what I'll refer to as a confession of your failures to comply with this rule -- or I think that their words are "self-reporting." So I say "confession." Any failures to comply with this rule, 15c2-12.

So what is this rule? What this rule generally states is that the underwriters have obligations to make sure that the issuers have in their offering documents continuing disclosure obligations, meaning, that they need to show from year-to-year their financial statements, for example. And so that's sort of one big sort of item.

And then the other thing is that should that particular issuer be doing new bond issues, they need to also disclose any failures in the last five years to comply with this Rule 15c2-12, meaning, that you have continued disclosure obligations and somehow you failed to comply with them.

So in the last five years, we have had opportunities when we issue bonds to make the statement that we are in compliance with 15c2-15.

When this particular initiative came up, there was a lot of discussion about what is a material failure versus an immaterial failure, what is a foot fault versus, you know, jaywalking.

So we believe that the statements or the representations that we made are true. But what we decided to do is that we went ahead and filed sort of a list of failures or failings that we've found -- we determined to be immaterial, but we went ahead and filed in the spirit, again, of openness and transparency.

So it's some of these things. So I just want to go through them so that you also get a sense of this. So we had maybe a dozen instances in which we filed our financial statements late. And most of them were something like two or three days late. Because the reporting requirement is 180 days from the reporting date. So, for example, if it's a 6/30 financial closing date, you're supposed to file within 180 days.

We, prior to this initiative, sort of looked at that somewhat liberally, and sometimes filed at the end of the year, on December 31st. But what we didn't realize was that it was really 180 days, and it's really going to be December 29th that you had to file, and not on December 31st.

So we had a bunch of instances like that. And we obviously have taken corrective actions to correct that.

We did have one or two instances in which we filed certain disclosures related to the offering documents, something like that 17-day range. That only happened once.

And there was also one instance in which we did not report on a particular downgrade. So if you go back to some of the rating charts, in sort of that middle 2011, when things were really a bit too exciting, that we had one downgrade that we didn't report; but then we got another downgrade three months later, and we did report.

And we also had another instance in which we said that we got downgraded from a lower rating to a higher rating. So we just didn't get the wording right. Because if you look at this, it's, you know, a mistake. So we said that we got downgraded from a lower rating to a higher rating, whereas we should have said we got downgraded from a higher rating to a lower rating.

And there was a bunch of instances in which -- and this was a hot topic of this particular initiative, that a lot of these bond insurers got downgraded throughout the financial crisis. And when they got downgraded, it also impacted the bonds that were insured.

But this is very public. This is things that, you know, actually made it onto The Wall Street Journal front page. So most of the issuers didn't put onto -- the reporting goes through the system called EMMA, which stands for "electronic municipal" -- something, something. And the report -- you're technically supposed to report onto EMMA, but most issuers didn't do this with respect to these bond insurers.

So we went ahead and we had, I believe, seven instances in which -- when the bond insurers got downgraded, we didn't post it into EMMA.

So, again, we believe all these are -- they're not material, but we went ahead and filed. And I believe that this is -- this is one of those things that sort of bridge between Claudia and Tia; and both of them I think agree that, for the sake of openness and transparency, that we went ahead and filed these things we deemed to be immaterial. And we haven't heard from them since. So, so far, so good.

CHAIR JACOBS: Any questions?

MR. BROWN: Just a general comment.

Just to let you know that Tim Schaefer, who is the primary deputy for this board, we've had a lot of discussions about the SEC initiative. And this will be one of the areas that we'll be putting some focus on, going forward in the Treasurer's office.

MR. HSU: So in response to that, we have also, as part of this process, adopted a set of formal procedures and policies regarding disclosure and continued disclosure. And much of our policy is actually modeled after the Treasurer's office policy.

And, obviously, the policy is to ensure that we meet all our 15c2-12 obligations and any other contractual covenant obligations that may come from our continuing disclosure agreement.

And as part of all this, too, that we will make sure that we have training. I think that in the policy, it suggests that we will have training at least once a year, to make sure that the people who are actually looking at the policy, know what the policy is. And it's only really as good as the people and not the policy. So I think that we should mirror well in terms of emphasis and focus on this effort.

MS. BOATMAN PATTERSON: And, Tim, I'm going to ask you to follow up with Tim Schaefer in the Treasurer's office to review our policy, since we recently adopted that in, like, December or January, I think it was.

MR. HSU: That's correct.

MS. BOATMAN PATTERSON: And so with the new Treasurer and the new Treasurer's administration coming on, that might be a good time -- opportunity for you to provide him with that briefing.

MR. HSU: Yes, we're glad to do that.

I believe that at some point we had sent our policies and procedures over to the Public Finance folks at the Treasurer's office, to see if we have comments.

Again, much of our policy is modeled after the Treasurer's office.

And also that the policy I believe is meant to adopt some of the best practices out there, in terms of this particular effort. And I think that it also does that as well.

CHAIR JACOBS: I think also, just Tim, as a matter of routine, perhaps if errors are picked up prior to getting reported to the SEC, if you would communicate them to Audit, just a matter of practice. Just have it.

MR. HSU: Okay, we'll get you that.

CHAIR JACOBS: Great.

Any questions?

(No response)

MR. HSU: Thank you.

CHAIR JACOBS: Thanks, Tim.

MR. HSU: Thank you.

CHAIR JACOBS: Is the oversight committee report agendized, or no?

I think it was distributed but not agendized.

Yes, okay.

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Item 10 Update on Multifamily production, conduit issuances and discussion, recommendation and possible action regarding final loan commitment for Ocean View Senior Apartments 14-024-R/N, in Pacifica/San Mateo, 100 units

(Resolution 15-04)

CHAIR JACOBS: Okay, great. Let's jump on to Ocean View.

MR. MORGAN: Good morning. It's good to be back in front of the Board to share what we've done for this fiscal year, and also the enhancements we've made to our programs during these past nine months to improve our production.

I'm going to talk about the conduit, the MHSA, the Preservation Loan Program, and also --

MS. BOATMAN PATTERSON: Did you introduce yourself?

MR. MORGAN: Hi. Jim Morgan, Acting Deputy Director for Multifamily Programs. And Ruth Vakili, who is our project officer from Multifamily Programs, who will be doing the Ocean View presentation.

So I'll be providing you with a brief update with the conduit, MHSA housing program, our Preservation Loan Program, and then the lead in to Ocean View.

With our conduit program, currently, we've done three projects at $40 million so far in conduit issuances, and we have two more in the queue, which is going to give us another $40 million in conduit issuance, which has been a good -- a nice piece of business for us this year.

And as Tim mentioned earlier, you know, two weeks ago, we finalized our revisions to our new conduit issuer program. And with stakeholder input, we've implemented those, they're on our Web site. We've done a Listserv e-mail news release. And with input from senior managers, stakeholders, it's been a really productive and communicative product where we've restructured our -- we've reduced our issuer fee to be more competitive; and with a slight reduction for nonprofits, we've reduced our annual admin fee.

We've incorporated a formal conduit issuer application process to delve into the details of the issuance; and also have incorporated a local review assessment, to reach out to the JPAs and housing authorities to receive input from them, if they have funds in the deal or any issuances with the developer or their management company.

With regards to MHSA, we have been -- that program was implemented in 2007 with a goal of -- to fund the statewide creation of 10,000 affordable housing units, using the MHSA program, with 2,500 of those units, MHSA units.

So, you know, the program today: $400 million was allocated. We're at $351 million total allocation. We've done 157 total projects. And that has created

9,500 affordable housing units, which out of that 9,500, 2,300 are MHSA.

So it's tracking -- with the remaining $51 million, it's tracking to meet the goal of the DHCS, 10,000 affordable and 2,500 of those MHSA units. That has kept us busy.

Just the last four years, since July of 2011, we've done 91 projects and $120 million, representing 1,100 units. So our staff has been busy on the MHSA side. And it's been successful.

With regards to that update, this program -- our interagency agreement with DHCS expires May 30, 2016. So currently, we're in discussions with DHCS as far as to modify and extend that program, and try to get a temperature from other county DMHs, county -- department mental health county agencies, to see what they would like going forward, and how much money would they -- if they were king and queen for a day, how much money would they put forward to continue the program.

So those discussions have just started. So that would be MHSA 2.0.

So the program has been robust.

Some of the issues are some of the pricing issues that we'll discuss; and if DHCS wants to take a step back, then what would CalHFA's role be going forward, and what would our purpose be there, and how would we perform?

So that's been a very successful program. And we hope to possibly continue going forward in some capacity.

And then with the Preservation Loan Program, currently, we've closed five projects this year, 540 units for $40 million. And in the queue, we have another $30 million of closings coming down the pike.

So it's been busy with the MHSA, some in the conduit, and the Preservation Loan Program.

And as was mentioned earlier, on the horizon, is our synthetic Ginnie Mae. And we're trying to figure out an acronym for that. We were going to call it "SG," "It's 'so good' to be back" loan program. So we're working on an acronym for that.

CHAIR JACOBS: I've been calling it "Synnie Ginnie."

MS. CAPPIO: It's good.

MR. MORGAN: Yes, I like it.

So hopefully, we'll have an update at the May Board for that.

And in addition, in working with our -- in tandem with our Preservation Loan Program, we're currently working with our General Counsel and Counsel staff to establish some parameters for the use of our internal funds and the restriction on each of those funds in which they can be used for our loan products, more specifically, projects in our portfolio that are in need of recapitalization, and those mission-driven purposes that we have, like, extending affordability and buying down affordability.

So before I get into the lead into Ocean View, and it's a perfect lead into Ocean View, are there any questions?

MS. SOTELO: I think my only request would be that prior to engaging in further discussions around the MHSA program, we look at cost efficiencies of running that program internally to CalHFA.

I think it's a wonderful program. I think it's the right program to do. It's good public policy on all fronts, and it's been very successful. But I think that we have to be realistic about the cost to the Agency and how it moves forward.

MR. MORGAN: Thank you, Dalila.

Yes, that is part of one of the parameters that we're looking at.

MS. BOATMAN PATTERSON: Jim, did you mention that we were doing a report, a detailed report on MHSA, that we were going to be putting that out in mid April?

MR. MORGAN: Yes, well, as far as progress and where we're at?

MS. BOATMAN PATTERSON: Right.

MR. MORGAN: Yes.

MS. BOATMAN PATTERSON: A comprehensive report on what we've done.

MR. MORGAN: On the program, yes. I'll give them the highlights and we'll give them a little more detail.

CHAIR JACOBS: Is there collaboration on Veterans Affairs on that?

MS. BOATMAN PATTERSON: On MHSA?

CHAIR JACOBS: Yes.

MS. BOATMAN PATTERSON: MHSA is a collaboration through the Department of Health and Human Services.

MR. MORGAN: Health Care Services, DHCS.

MS. BOATMAN PATTERSON: And that's one of the issues that has come forward: How do we potentially marry MHSA and Veterans? And so those are some ongoing conversations.

But initially, that partnership was with Department of Health and Human Services.

MR. MORGAN: And if there is a decision, how we move forward can also marry well with the Veterans Housing and Homelessness Prevention Program, the Prop. 41

funds.

CHAIR JACOBS: Yes, there was just recently the survey of homeless in Southern Cal -- I guess, statewide. There are a lot of veterans in that pool.

MR. MORGAN: All right, so hopefully, now we'll have -- on to the Ocean View project. Ruth will present that. And this is one of many more to come with the "So Good to be Back" program.

Ruth?

MS. VAKILI: I'm going to be able to show you some very nice pictures. Because as the name connotes, the Ocean View project has actually a view of the ocean. It is one block from the ocean. The property is one lot block from the ocean.

It's a senior housing project, a hundred units, extremely well-located in the City of Pacifica, the only affordable housing project in the city.

As you can see, I went in some of the units. These residents, many of them have a beautiful view of the ocean. And you have services right next door in the retail center.

Directly across the street, you have the senior center which you can see right here, another great view.

There is shopping within a half mile; a post office across the street. So it's extremely well located, especially for the senior population.

This is a view of the front entrance of the property.

And we've shown some pictures of the interior of the community rooms and some of the units.

This unit, I actually want to point out. I wish I'd have gotten a different shot. This unit has been upgraded in the kitchen, whereas before, most of the units still have the avocado-green countertops, the old appliances. We all know what those look like. And so they're in need of substantial rehab in these units.

This one actually looks pretty darn nice.

Ocean View consists of two buildings, and they're connected by a pedestrian bridge.

You can see that although the front looks very nice, there's been a lot of good improvements over the years that have been done, that have been necessary.

There's still a great deal of improvement left. You can see some degradation of the siding and belly bands. The property is going to undergo a comprehensive rehab.

You can see here, although some of the windows are new and replaced about seven or eight years ago, there's still a lot of repairs to be done. Some of the existing windows from when the property was built back in 1973, are remaining. So those will be removed and new windows replaced.

Here is a picture of the existing windows.

The property will be affordable to the senior housing population.

Do I need to speak up?

MS. BOATMAN PATTERSON: *(Nodding head.)*

MS. VAKILI: I always feel like I'm talking too loud. In this case, it's not loud enough. Okay.

The age restrictions for this property are 55-years-plus. And the rents, as you can see, compared to market, are extremely affordable. They're between 35 to 75 percent of market in Pacifica. As you can imagine, the market rents in this area are very high.

The rent levels for the property range between 50 to 60 percent AMI.

The property will have 31 new Section 8 vouchers, which will assist not only in financing the property, but also in making the rent even more affordable for the existing tenants.

Some of the things I wanted to go into a little more detail about, was the collaboration that went into not only this new financing structure, but in the previous financing structure. You have the City of Pacifica involved and also you have the County of

San Mateo involved in providing affordable housing funds that not only helped to acquire the property back in 2000, when it was at risk of going to market, but also these same partners are involved in the property today.

The County of San Mateo is going to extend their existing loans and the affordability of the property.

And as I mentioned before, the County has allocated 31 Section 8 vouchers for the project.

All of this goes into being able to substantially rehabilitate the property. As you can see from the pictures, there is a great need.

The interior of the units have never been upgraded. As I said before, some of the exteriors have been. There's still a great deal of work yet to do.

And, fortunately, BRIDGE Housing has come in alongside as a developer. They're buying the property from National Church Residences, which will enable them to substantially rehabilitate the property, extend affordability, and bring in new CalHFA financing.

As you can see, on page 2, the property is being sold from the current owner, National Church Residences, to BRIDGE Housing, who will then sell the property from BRIDGE Housing Ventures, Inc., to the new borrower, which is Ocean View Housing Associates.

There are two different sales transactions involved, and there will be a time lapse of between five to seven business days between these transactions.

This is done in order to avoid tax consequences related to the forgiveness of the City of Pacifica loans. And the differential between the price from Sale 1 to Sale 2 will be in the form of a seller carry-back. This will be also a subordinate loan.

In addition to the seller carryback, you'll have a new CalHFA loan. And that loan will be an acquisition of $18,075,000, at 3 percent fixed, for 18 months.

During the 18-month rehab period, we'll also have provided a gap loan of $1.960 million from our earned surplus, and that's at 2 percent simple interest.

The conversion in 18 months will roll into a CalHFA first mortgage of $9.850 million at 4.75 percent for 40 years. And the gap loan will remain. It will be in the subordinate position, second to our first, of $1.960 million, for 55 years.

Other financing provided will continue to be the County of San Mateo, who will extend their loan and their affordability. And they have an existing HEART loan, and they have also an existing HOME CDBG loan. Both of those will be extended to 55-year terms.

I think that wraps it up.

Are there any questions?

CHAIR JACOBS: Did BRIDGE look at adding units on the property? I couldn't tell from the images if it was fully built out or…

MS. VAKILI: It's fully built out.

CHAIR JACOBS: Janet?

MS. FALK: The new permanent loan, it says it's a 40-year amortization. But what is the term? When is it due?

MS. VAKILI: Forty years.

MS. FALK: It is a 40-year loan?

MS. VAKILI: Yes.

MS. FALK: Okay, it's not 40, due in 15?

MR. MORGAN: No. They could prepay, Janet, at the end of the compliance period.

MS. FALK: Great.

MR. MORGAN: But it's a hard maturity at 40 years.

MS. CABALLERO: So who is the nonprofit that ultimately has to swear to the 501(c)(3)? It took me a while to kind of draw my little drawing as to who was doing what, and who was the borrower and who was the seller, and when. And I can't figure out who is a 501(c)(3).

MS. VAKILI: The 501(c)(3) is BRIDGE Housing Ventures, Inc.

MS. CABALLERO: Okay.

MR. JAMES: So the permanent financing will be to Ocean View Housing Associates, a Limited Partnership; but it will not be structured as a 501(c)(3), and it will not use 501(c)(3) funds in the final closing of this.

MS. CABALLERO: Well, they were listed as the borrower; and that's why it was confusing to me. There were two --

MR. JAMES: Well, go ahead.

CHAIR JACOBS: Janet, walk us through this.

She's done this a million times.

MS. CABALLERO: Thank you.

MS. FALK: In order to use the tax credits and get an investor to come in, you have to set up a partnership. So that's why.

And somewhere in the general partner, there is a 501(c)(3), but it's not going to be 501(c)(3) bonds.

MS. CABALLERO: Okay, all right.

MS. FALK: BRIDGE is involved. All those entities are BRIDGE entities.

CHAIR JACOBS: There has to be a for-profit to benefit from the --

MS. CABALLERO: I get it. Okay.

It was just confusing me, because it was listed as the borrower, and then ultimately I understood that BRIDGE Housing Ventures was going to be…

MS. BOATMAN PATTERSON: I think the confusion came in because there's an intermediate step that we're usually taking --

MS. CABALLERO: That's right.

MS. BOATMAN PATTERSON: -- that we don't usually take.

MS. CABALLERO: That's exactly right.

MR. MORGAN: Usually, it's A to B, and this is A to B to C.

MS. BOATMAN PATTERSON: Right, yes.

MS. SOTELO: Right, and on page 2 it goes through the 501(c)(3) bond structure as it gets retired.

MS. BOATMAN PATTERSON: Right.

MS. CABALLERO: Right, that was what was confusing.

MS. BOATMAN PATTERSON: Exactly. It was getting confusing because of that intermediate step.

MS. VAKILI: And if you think that this was confusing, wait until we get to the closing.

It's going to be a lot of fun.

MR. GUNNING: Mr. Chairman?

MS. SOTELO: So, I had a couple -- sorry.

MR. GUNNING: Just a random question. Do you know who insures this property?

MR. MORGAN: As far as the property?

MR. GUNNING: Yes. Who is providing the insurance loan?

MR. MORGAN: I do not know that, but we can find out.

MR. GUNNING: There's a bill in the Legislature that has to do with that subject matter, particularly Section 8 residents; so I'm very curious about this.

MR. MORGAN: Okay.

CHAIR JACOBS: Ms. Sotelo?

MS. SOTELO: So I had one programmatic observation, and then just a couple of questions.

I assume that we're getting this -- we're negotiating with the borrower because we already had a loan product in place and that's why they're coming to us, rather than them just coming off of the -- you know, coming out of the blue to get our financing.

Is that correct?

MS. VAKILI: I'd say that's mostly true. But also, I think that our program has become competitive enough to attract -- and we are attracting borrowers from outside of our portfolio who are coming to us for financing.

MS. SOTELO: Okay, so would you consider this both a refinancing of our debt and new issuance? Or --

MS. VAKILI: Yes.

MS. SOTELO: -- this is purely just a new issuance?

MR. MORGAN: Yes, and just to let you know, Dalila, this has been an asset we've been working on with the previous ownership, through National Church Residences, for the last five or six years. And they're headquartered -- they're sitused out of Columbus, Ohio. And they wanted just to dispose of their West Coast assets. And this had been a challenge. So this has been in our portfolio for a while. And we've just had the opportunity to be able to finance it. And it will be a new bond, new recapitalization. And as Tim mentioned, hopefully we'll be able to utilize this, use the synthetic Ginnie Mae for this loan.

MS. SOTELO: And how was the decision made about using Earned Surplus to fill the gap?

MS. VAKILI: What we had originally, when we first started talking with BRIDGE, we knew that with the financing structure involved, it would necessitate a gap loan. The question really is, what source we're going to use. And so there was a lot of discussion --

MS. BOATMAN PATTERSON: Let me see if I can address this.

One of the things that the Board had asked, is us looking at program income and using it as a reinvestment into our own portfolio and making sure that we preserved the affordability of our own portfolio.

So when we are looking at Earned Surplus as a gap financing tool, there's some policy parameters that we want to look at. One, is it in our portfolio; is it in physical need -- is it in need of physical rehabilitation? Is it in a high-cost area? Is it at risk of going market if we don't continue to keep it in our portfolio? And are we buying down or getting additional affordability when we put in our money?

And when we looked overall at those policy parameters, Ocean View fit every single one of those policy parameters. And so those are the kind of things that we're talking about internally, is reinvesting our program income, and getting -- and meeting other additional state policy goals. And so that's how the determination was made.

In going forward, those are the parameters we'll be looking at when we talk about an overall preservation -- a portfolio preservation program, and using our income to put back into our projects.

MS. SOTELO: That's excellent.

CHAIR JACOBS: Yes, Ms. Caballero?

MS. CABALLERO: Just as a footnote to that, one of the things that was interesting to me, as I was looking through the detail about who was forgiving loans and who money was owed to, this is a county that has very little affordable housing; that has invested very little money in affordable housing.

And so one of the -- I was really glad to see that the City of Pacifica basically waived their -- made a contribution to the project, I guess is the best way to say it, and wondered why the County didn't do the same. They still have the same obligation. And it just seems to me that at some point, we need to start considering, in the future, as we look at what counties and cities prioritize affordable housing, and what don't; that they have to play ball, too.

And I don't know how to do that as a financing organization.

MS. BOATMAN PATTERSON: Right. And we did look at the County Housing Authority actually did come to the table with the Section 8 vouchers.

MS. CABALLERO: That's true. That's true.

MS. BOATMAN PATTERSON: And so we tried to make sure, this was truly a federal, state, and local partnership.

MS. CABALLERO: That's good.

MS. BOATMAN PATTERSON: Because we made sure that we were bringing in our access to certain federal programs, the State of California. And everyone rolled up their sleeves to make sure that this project could work.

MS. CABALLERO: Well, that's good. But County CDBG funds don't necessarily need to be repaid back. So, anyway, that's just having said that --

MS. BOATMAN PATTERSON: We'll continue to look at that, to bring them to the table too.

MS. CABALLERO: Yes, exactly.

CHAIR JACOBS: And to that point, we had a project also in San Mateo County, I think, that did not max out the use of the site. They rehabbed and spent a lot of money at the rehab without adding units. And it might be one of those things in those counties that if you ask them, we would strongly suggest or make the documents open to adding the second level of financing for an infill piece or something along those lines.

MS. SOTELO: It just impacts our gap loan, right? So if the County had been willing to refinance their debt or forgive their debt, our capital would not be as high.

MS. CABALLERO: That's right.

MS. BOATMAN PATTERSON: That's true.

MS. JOHNSON-HALL: I would ask, going forward, the next time you do a presentation, because this is a portfolio transaction, that we have a little bit more context on the portfolio itself, on the project itself, and the operations of the project.

I did get a chance to look at it, and it's going to be fine.

I would not expect that a beach property would do anything but do well going forward. But it would have been nice to hear a little bit -- because this is a portfolio deal -- to hear what the change in the financing, if any, would have -- what the impact would have to the property itself going forward.

But the information is here. But I would like us to include that as part of the presentation going forward.

MR. MORGAN: Okay, we will do that.

MR. HUNTER: So sort of in line with that, there were several things that I looked at that I thought were kind of interesting about this deal.

One is that the property was originally built in 1973, so it's 40 years in service, which is fairly impressive.

But the other is, it struck me that there was a lot of refinancing back in 2000 specifically for the purpose of rehabilitation. And I'm wondering -- it doesn't seem that that rehab has held up well. As we're thinking about it, now being 15 years out, and it needs significant rehab. And so then I was wondering, well, I wonder what they did with the replacement reserves, or whether they funded the reserves adequately.

I was pleased to see in the operating pro forma, that there is a healthy contribution to reserves. It's also notable that there's still a significant cash flow, even after the debt service in the reserves. So maybe they should put more in reserves to be sure we don't get into this problem in another 15 years.

But then I also noticed that it actually, in my thinking, is changing ownership from National Church Residence to BRIDGE. And I'm just -- the condition of the property raised some questions for me about how good the management has been over the last 15 years. And so that was part of why I started looking at that. And then seeing that it is shifting over to BRIDGE, I'm fairly comfortable with their property management records. So I just hope that the reserves are adequately funded, and that we don't come back in 15 years and have the same level of need.

MR. MORGAN: So, Jonathan, yes, for this project, it was on its 30-year -- getting up to its 30-year maturity. And this is back when we were underwriting to tenant-based vouchers. And the scope and work that was going into it was based on those tenant-based vouchers, the last that we ever underwrite to tenant-based vouchers.

Also, too, there was a threat of this project going to market because it's Pacifica and it's Highway 1, it's seniors. And so National Church Residences -- and it's nonprofit, you mentioned -- stepped in and acquired it.

And we took it, and we approved an acq/rehab loan. And during that process, the voucher money got cut. So the rehab budget got cut in half; and we were making every attempt to shore up what we can do and extend those rehab dollars. But it's been a -- you know, it's been a brick-by-brick, fill-the-hole-in-the-dam process since.

MR. HUNTER: Okay.

MR. MORGAN: And so National Church Residences was able to go out and secure HEART money to do some siding and some windows. They were able to secure some funds with reserve money to do some roofing. But it just -- to answer your question, you're right, it did not get the rehab attention that it needed; but it was a victim of circumstance as well.

MR. HUNTER: So then I just had one other question.

Do we anticipate any problems with the HUD waiver on the vouchers?

MS. VAKILI: We have submitted the waiver. We're also in contact with HUD. This is a waiver request that's been done multiple times by different entities. HUD is very well aware of the issue, and so we're walking through this with them. We're not anticipating any problems with this.

MR. MORGAN: Yes. HUD headquarters has already contacted us, and they're processing it.

MS. FALK: Are there many residents who are between 55 and 62? Do you know?

MR. HUNTER: At this point, there wouldn't be any, because it's -- the existing rules are 62-plus. So this is just -- by changing -- this would apply to a vacancy, should it come up; right?

MS. BOATMAN PATTERSON: It would have to be -- so, future.

MS. VAKILI: There are currently about 21. In fact, the project manager just said 21 that are below 62.

Presently, the age restriction is 55. So it's -- you know, presently, quite a number.

MS. FALK: So it's needed for the existing residents to prevent displacement?

MS. VAKILI: Absolutely.

CHAIR JACOBS: One more question for you.

Mr. Brown?

MR. BROWN: Yes, just a brief question. But I also want to -- I think Mr. Morgan reminded me of some of my rich history, actually, was the cleanup deputy of Cal Mortgage many moons ago. So that reminded me of that, some things I had to do there.

As noted, I just have gotten recently involved again. And if you could just briefly talk about the role of TCAC with the tax credits, and how it fits into this project.

MS. VAKILI: Well, the BRIDGE housing has already applied for tax credits, and they're awaiting the award. They are going out to the investor market to get offers. And tax credits are a very important part of this financing structure. We're projecting that equity contributions will be $11.915 million.

So during construction, we're anticipating about $2.6 million of equity infusion. So as a part of the whole financing structure, tax credits are very important to this project.

MS. BOATMAN PATTERSON: And just to clarify, this is the 4 percent tax credits, the ones that are undersubscribed, as opposed to the 9 percent competitive, which I think that's what you were inquiring about.

MR. BROWN: Okay. Yes, many moons ago, I was sitting up there, and people fighting over the tax credits.

MS. BOATMAN PATTERSON: This is the 4 percent side.

MR. MORGAN: And then we have another 55 years of affordability, Mr. Brown.

MR. BROWN: Okay.

CHAIR JACOBS: Any further questions?

(No response)

CHAIR JACOBS: We do have a motion?

MS. FALK: Move approval of the project.

MS. CAPPIO: Second.

CHAIR JACOBS: Perfect.

Let's take a vote.

MS. OJIMA: That was Ms. Cappio?

Thank you.

Ms. Caballero?

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Aye.

MS. OJIMA: Mr. Brown?
MR. BROWN: Aye.
MS. OJIMA: Ms. Gunn?
MS. GUNN: Aye.
MS. OJIMA: Ms. Falk?
MS. FALK: Aye.
MS. OJIMA: Mr. Gunning?
MR. GUNNING: Aye.
MS. OJIMA: Ms. Johnson-Hall?
MS. JOHNSON-HALL: Aye.
MS. OJIMA: Mr. Hunter?
MR. HUNTER: Aye.
MS. OJIMA: Ms. Sotelo?
MS. SOTELO: Aye.
MS. OJIMA: Mr. Jacobs?
CHAIR JACOBS: Aye.
MS. OJIMA: Resolution 15-04 has been approved.
MR. MORGAN: Thank you.
CHAIR JACOBS: Thanks.

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Item 13 Closed session under Government Code section 11126(e)(2)(C)(i); consideration to initiate litigation

CHAIR JACOBS: All right, let's take a break to go into closed session; and some people could use a break, anyway. We're going to have lunch brought in during closed session; and resume with the informational items on our agenda.

Thanks.

(The CalHFA Board of Directors met in closed session from 11:32 a.m. to 12:18 p.m.)

CHAIR JACOBS: We are back in open session.

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Item 11. Update on Single Family lending production and presentations on CalHFA's Re-Fi Program and CalHFA's TBA Business Model by Mike Awadis Senior VP, First Southwest

CHAIR JACOBS: Going back to the informational items, the reports -- oh, actually, no, before that, Item 11.

MS. BOATMAN PATTERSON: Number 11.

CHAIR JACOBS: The gentleman from Southwest.

Is Mike here?

MS. BOATMAN PATTERSON: Mike, you're up. You and Ken.

MR. AWADIS: Would you like me to go first?

MS. BOATMAN PATTERSON: Yes. Let me give you a little interim.

We have a lot of new board members, and I really wanted them to understand what the TBA model for our single-family was; because even though I was on the Board for about a year, and everyone kept talking about the TBA model, I think it was Dalila and I in Idaho, in listening to your presentation in Idaho, that we were like, "Oh, that has very little risk. Well, this is great."

So I've invited -- we wanted Mike here to come, so that the Board members would really understand what this TBA model is. And so that's why he is here to do this presentation.

MR. AWADIS: Thank you. Thank you, Tia, for that.

My name is Mike Awadis. I am from First Southwest Company. And we have the pleasure to work with CalHFA staff on the implementation of your TBA program, which I'll get into in a moment.

Just by way of color, we started doing TBA programs with state HFAs going back to 2012. But it was really becoming evident that it was very difficult for housing finance agencies to continue to fund their first mortgages using the traditional methods, which is issuing tax-exempt debt. And that market has changed drastically in the last five years since the crisis.

Now, we had some stimulus programs from Treasury, where Treasury was buying bonds directly from

HFAs. But when those programs ended, it was really becoming very difficult.

So I have quite a deck that I'm going to try to simplify as much as possible in -- Tia, what do I have? Five minutes, ten minutes, maybe?

MS. BOATMAN PATTERSON: Five.

MR. AWADIS: Five?

MS. BOATMAN PATTERSON: Maybe seven.

MR. GIEBEL: And I get a minute.

MR. AWADIS: So usually I cover this presentation in 45 minutes. So if I'm talking a little fast…

(Brief discussion off record at 12:19 regarding PowerPoint equipment setup.)

MR. AWADIS: Okay, wonderful.

So what is TBA? I know it's a kind of a funny name. But TBA is really, in its simplest form, it's "to be announced." To be announced is a market in which mortgage-backed securities, what we consider to be agency-eligible mortgage-backed securities -- these are Fannie Maes, Freddie Macs, and Ginny Maes -- trade on the open market.

Now, mortgage-backed securities, I think you probably already know this, is just simply a debt obligation; and the most common form of mortgage-backed securities are MBSs or pass-through MBSs.

What makes this market work so well is simply liquidity.

So the mortgage-backed securities market is the second biggest debt market in the world outside of U.S. Treasuries.

So on a given day, anywhere between $250 billion and $300 billion of this paper trades between broker/dealers and primary dealers. So it's a huge market, lots of liquidity. Every investor, every broker/dealer, every primary market maker participates in this space. And what makes it even better is that we have international buyers love this paper because it's a great way for them to invest dollars in the United States. It gets them a little better returns than what Treasuries do, but, you know, it's got the same safety net.

The vast majority of the MBSs, really 90 percent of them, trade in what we call the "TBA" or the "forward market." What makes the TBA market work efficiently from the purpose of the mortgage lenders -- and HFA is one of them -- is that it's a great tool for the buyer or the seller to hedge their pipeline.

You know, every day CalHFA makes mortgages to first-time home buyers. There's risk involved in that mortgage from the time the loan is originated, all the way to the time that the loan is delivered. Usually, that's about 90 days. A lot can happen in a mortgage market and interest rates in 90 days.

So what we do as the hedge provider or hedge administrator, TBA administrator for CalHFA, is that we take on all of that interest-rate risk. We hedge the risk for CalHFA. So CalHFA, when they make a commitment to a borrower via a lender, they're not taking an interest-rate risk. And what they're doing at rate lock, is you're essentially locking in -- you're locking in your gain on sale on that MBS. And that's the key that I want to emphasize here.

I'm not going to get into some of SIFMA stuff, what mandates to be TBA-eligible MBS.

This is a slide that I'd like to share with you, basically speaks to the liquidity aspect of MBSs.

If you look, this chart goes back from 2005 to 2010. And I picked that time frame, because that's a time period where HFAs were very big issuers of tax-exempt debt to financing of family activity.

As you can see, the municipal bond market on a given day is, let's call it a $20 billion market. You compare that to Treasuries, which are trading anywhere between, you know, $500 billion to $600 billion a day.

You move over back to the Agency mortgage-backed security market, that's anywhere from $250 billion to $350 billion. And then you go all the way to the right, which is where corporate bonds are, that's a very, very small market.

Now, when you compare to the municipal market, we're talking every municipal investment that's being issued, that's including, you know, your General Obligation bonds and everything else. I mean, if you get down to HFA business, I mean, it's not even a fraction of what's being traded. So liquidity is what drives this demand.

Now, here's a quick slide I want to go over which basically emphasizes the benefits of the TBA market compared to when you issue tax-exempt debt.

The TBA market, first of all, provides a no-risk forward commitment mortgage program for the HFA, with no cost of issuance and no negative arbitrage and any issuance expenses.

In today's market, it produces a significantly lower mortgage rate than you can do by issuing tax-exempt debt.

It's a great source to fund down-payment assistance to first-time home buyers. You know, today it's very difficult to sell premium bonds. You can generate premium to the TBA market to fund down-payment assistance.

It gives you the flexibility to adjust your rates with the market, instead of just issuing debt and staying there.

It affords the HFA the option to pay higher lender compensation.

You can finance non-first-time home buyers using the TBA market. You can't do that with bonds.

It's lender-friendly. You know, lenders, as much as they love your programs, they hate the paperwork nature of your programs. With these programs, you can eliminate most paperwork and make it easier for the lenders to originate.

You can combine this program with mortgage credit certificates. Essentially, you're lowering the net borrowing costs for the borrower when you add an MCC behind a loan.

Perfect timing: You can offer refinances with those programs. You can't do that with issuing bonds.

And it's significantly more profitable in today's market for the HFA to do these programs than it is to do traditional tax-exempt financing.

Now, there are a couple of advantages that I think are worth noting, and I'll be quick.

Because it doesn't require the issuance of tax-exempt debt, now you've got other players competing in the space. Namely, we have a couple of agencies in the state here. We have CalRural CHF that's doing a statewide program, even though their jurisdiction is generally limited to 32 or 33 counties and some additional things.

And then there's also a subsidiary -- or maybe they're not a subsidiary, but an affiliated organization that they have called National Homebuyers Fund, and that entity is now expanded into 25 states, doing this type of lending in 25 states, competing with other state HFAs. So that's obviously a threat to the model.

And then, of course, you don't have the ongoing issuer fee that you get when you issue tax-exempt debts, because most of your gain is gain on sale.

Now, some of this has been alluded to earlier. This is CalHFA's production going back to July of 2014. You can see a 45-degree angle, and it's growing.

Tia, I know, you mentioned earlier that you have done $50 million in the last two months. I'll go out on a limb right now and say that March is going to be another record month. You know, we're only halfway through the month and you've already done $35 million.

So production is doing great, and it's because of all the great changes the staff have introduced and the efficiencies that were brought forward.

And I know I talked a little bit about market volatility. I mean, the Fed is talking tapering. They want to end a lot of the stimulus programs. Clearly, you see what's going on with the interest rates.

So without a hedge product like this, it would be very difficult to manage the interest-rate risk that's out there. And that's what you're getting with this.

That is just about as fast as I could talk.

MS. BOATMAN PATTERSON: Good job.

MR. AWADIS: All right, I'd be happy to take questions, if there are any.

CHAIR JACOBS: Do we have any questions?

MR. GIEBEL: Just a couple things.

I'm Ken Giebel, by the way. I wear a couple hats. For those of you that don't know me, I run the Single-Family operation which now includes the Portfolio Management -- and I'll make a comment about that shortly.

And I also supervise the Marketing, which for us going forward, is going to become more important because it will separate us from our competition. And when we come back to you, we will marry the Single-Family with what we're talking about in a digital marketing campaign. It's kind of the future where things are going, and we're going with it. It doesn't require a huge investment, dollar-wise, as traditional media does; but you need bodies who know what they're doing. It's where you go and it's your content. Facebook, that's the digital marketing. Google, all that type of stuff.

The good thing is, we can do an ROI, and everything we purchase digitally.

I can't do that right now with some of the media channels, traditional that we use.

So Sheryl Angst is over here to my right.

Sheryl runs the secondary marketing. That really is all about managing the TBA process with our master servicer, U.S. Bank. And she works daily with Mike because every morning at 7:30, we have to post the rate. And that rate can change sometimes two or three times during the day, so we're on the market. And if we don't do it, Mike can tell you, in a judicious, quick way, we lose money. And we don't -- nobody likes to lose money, because we have a very thin margin on these fees.

I'll just go into mine. I can't talk as fast as him. I can talk fast, but I'll try. Okay.

Just, I gave you some slides on our production. If you have questions, I'll take those. But I just wanted to give you a little bit of an update as of last Thursday. Someone asked, "Where do you think this is going?" We will just tell you where we think it's going. And then we'll talk about some things that we're doing between now and the end of the fiscal year, which will start next fiscal year, okay.

Just to let you know, as of 3/13, the report I gave you was of 2/28. We have purchased 576 loans for $136 million. We have a pipeline as of last Thursday -- and this is a net. We have about a 17.7 percent fallout through the process. Even when they lock, we'll still lose some loans. That's 633, and that's worth about $143 million. Between March, April, May, and June, we anticipate we should get another 500 net reservations. That's worth about $181 million. That assumes interest rates stay where they are in the areas we do business, which I put in your charts. It has not changed. We are in Inland Empire. We are in Valley. We are in outer East Bay in the Bay Area. A little bit in San Diego. We actually do business in Alameda. And if you would like to see by county, we can do all that.

But that's where we do business. We have a sales price that's basically four seventeen, which in those markets, is more than adequate.

And when we've added our down-payment assistance to it, the 6,500 on what we call the ZIP Extra, it made all the difference in the world.

So for the spring, going forward -- which is a bit of a higher selling season in California in the summer -- and as you know, spring started around January in California, and our business kicked up then, let me just tell you why we think we're in a good position.

Our contract for another master servicer for broker business, which is about 20 percent of the business in California, and for certain ethnic markets like Asian and Hispanic, which is about 50 percent of our first-mortgage business, that is particularly important because the percentage of business that mortgage brokers do in those markets is higher than the state average. And the state of California does the most mortgage underwriting by brokers in the country.

Two, so that contract is with First Mortgage Corporation. We should have it back within five days. We can immediately start as soon as our I.T. department can get this loaded, because that will be priced slightly different than U.S. Bank, our other master servicer. It's a broker business. So for some reason, they count it as a little riskier.

We've always asked U.S. Bank to show us the numbers on that, and we haven't ever seen them; but that's okay.

The other thing is, we are talking to Freddie. We had a conversation with them this morning. They are also going to have a kind of a Fannie, 97-percent product for us. I think it will help us. Certain lenders prefer doing business with Freddie because of their underwriting system; and two, I think on some underwriting standards, they will be a little bit more flexible. Like, right now, with First Mortgage Corporation, we need Fannie Mae to approve that. And we've been asking since November, and we still don't have an answer, and Freddie will do it tomorrow. So that's kind of -- they're much more flexible right now.

Plus, Tia and Tim and I and Tony have been working with both Freddie and Fannie on an HFA manufactured home product; and we're -- I think they're getting close. And we've kind of put them on the spot. The other HFAs have asked for that.

On our FHA product, we want to add the ZIP Extra money, the $6,500. We can't do that until we get a statute change. But in the meantime, I have petitioned HUD to give us a waiver on that. They have given us waivers before. We're asking. It's in D.C.; I don't know if we'll get it. But I can tell you if we add that money, that additional down-payment assistance, that part, our FHA product will probably go up 50 percent, maybe even higher than that. And it will help more people, especially in the Hispanic market, because they tend to go to FHA products.

And then one last thing. So -- I know, I'm getting the signal.

MS. BOATMAN PATTERSON: Get to the refi.

MR. GIEBEL: Okay. We're going to get to the refi. But I just want to let you know, what we've done on our reorg. is, we have cross-trained all our people in Portfolio Management in Single-Family. Because when your volume triples, we need more people. So on the first half review, we've gone from three to seven. In the second half review, where we actually cut the checks on down-payment assistance, we've gone from two to four. And those people have come from Portfolio Management, and they've all been cross-trained.

This morning, we moved two from second half, to first half. We still want to keep our three-day promise to our lenders.

With that, we're going to get into the refi. We think this is an opportunity, just to give you a little bit of background, we don't see it as a big volume business at all. But we have 161 loans going out the door every month of our existing portfolio. And when HUD changed the M.I. and reduced it 50 basis points from the first of the year, our subordinations have quadrupled. So all those people who took FHA loans with us and have the CHDAPs on them, we're getting them all the time to -- we either subordinate them or they pay off. So that's another, where we've moved a lot of staff to.

I'm going to just put the borrower benefits down and what we're doing. At the end, we'll talk about the biggest issue that we have with this proposal.

But, two, it gives the CalHFA borrowers, 2008 and prior, who have higher interest rates on their first, an opportunity to refi a lower mortgage rate, which would put some money in their pocket. They can pay off their junior loans. A lot of them have either two or three CalHFA junior loans. That would be a CHAP, in the old days -- we don't have that any more -- a CHDAP or a HiCAP.

It eliminates mortgage insurance. They have the opportunity, if they have enough equity, to get out of it; or, two, to pay it up-front.

We are going to provide them with the ZIP product which would help them do this and take care of some of the refi's needs.

And also, our biggest opportunity is with our Energy Efficient program, our grant program. They can take that, take the grant, and make their homes more energy-efficient at virtually no cost to them, and still lower their mortgage payment.

CalHFA's benefits are four-fold:

It would pay down our HMRB bond indenture. Like I said, the volume is an issue.

It would generate some fee income. We won't own these loans. They'll go to U.S. Bank under our TBA model right now.

It will recapture some down-payment assistance, which we recycle.

And, again, it would promote energy-efficiency from our standpoint.

MS. BOATMAN PATTERSON: And, Ken, can you get into how many people you think we may be able to help?

MR. GIEBEL: Well, we built in, if we get 2 percent, we have 15,000 mortgages that we are servicing in our six left servicers. About half of that, CalHFA services. So if we get one or two percent of that, we'll get 150 loans.

And, two, we have 34,000 CHDAP-only loans sitting out there, not with our first. And -- well, you would subtract the 15,000.

We'll have a shot.

Those are our marketing targets.

Go ahead. Sheryl is going to talk about

marketing, where we're going to go first and second. We're really not interested in just offering these to the general market. We want to target our borrowers and give them a better deal.

MS. BOATMAN PATTERSON: One minute.

MR. GIEBEL: Go.

MS. ANGST: Let's see how fast I can talk.

Again, as Ken said, we are going to first target existing CalHFA clients. We have 15,000 to have existing mortgages and the 34,000 have subordinate loans.

We've already developed community outreach, and we're going to plan to target audience to promote refinancing.

We are going to limit the refinancing opportunities to certain CalHFA preferred loan officers, so it will not be open to all of our approved lenders.

We're going to utilize the current CalHFA underwriting guidelines, the 45 DTI, the 640 FICO score, et cetera, that's in play now, so to minimize the risk. And we are definitely going to promote the Energy Efficiency, because we believe this will be our biggest opportunity.

We're going to open it up to the conventional products, both the CalHFA conventional and the CalPLUS conventional with the ZIP. The ZIP will be used for down -- excuse me, ZIP will be used for paying off closing costs or the mortgage insurance premium. And, again, we're going to do the CalHFA EEM Plus grant program. And we think we will have minimal business with the other two FHA products.

Again, general terms.

The borrower cannot take cash out. We're going to do what's called a limited cash-out refi, which will pay off the existing first mortgage and any closing costs and down-payment assistance which was used to purchase the loan. If they do not want to pay off the down-payment assistance, we can subordinate subordinates again.

Again, the ZIP can be used for the up-front M.I. or to pay the closing costs; and we have got to adhere to all CalHFA, U.S. Bank, and First Mortgage guidelines, as well as the GSE.

MR. GIEBEL: Our only challenge on this, just FYI, we do not have a sales-price limit on this, but we do have an income limit, because it's 120 AMI, because that's in our statutes. That will be a challenge for people. Because on our portfolio, which is mostly 2008 and prior, those people, we would assume their incomes went up. So that is our biggest challenge in refis.

A lot of people like FHA on their streamline, no income limits, okay.

CHAIR JACOBS: Dalila?

MS. SOTELO: So that leads me to the question that I was having when you talked about who your target market was going to be.

What is the policy rationale for targeting our existing portfolio as opposed to going out and outreaching to the marketplace and getting new people to sign up for a CalHFA loan?

MS. BOATMAN PATTERSON: Because I think people out in the marketplace have taken advantage of refi programs.

We are late to the game. We should have come out with a refi program to help these borrowers out years ago, when everybody else was going and getting assistance and refinancing. And so those folks have taken advantage.

These folks have -- we're just late to the party. And so we're offering it to our portfolio because they didn't have an opportunity to go out to the market -- or didn't go out to the market.

MS. SOTELO: So given that we may hit this problem of the 120 percent cap, because it's in our statute, is that something that we can have the policy authority to amend legislatively, or recommend that we amend it legislatively for the purposes of this? Because the policy objective of that would be to not penalize people for increasing their incomes; and wealth creation is a good policy objective.

MS. BOATMAN PATTERSON: Right.

And one of the things we had been talking about internally is -- I will be going back and revisiting with the legal staff about -- okay, 120 was at the time that they were initially qualified. Do we really need to have them meet it if they're just staying in the existing program, they're not doing any cash money out; and do those income limits actually apply?

So we'll be revisiting that with our legal department. And you may see us bringing something to the Board on that 120 --

MS. SOTELO: Okay.

MS. BOATMAN PATTERSON: -- if we see ourselves running into programs. That's why Ken is bringing it to your attention.

MR. GIEBEL: And, Dalila, just FYI, and I can tell you that since January, 60 percent of the mortgages are refis; and that's across the country.

MS. SOTELO: Right, right. I mean, that's where the market is going.

MR. GIEBEL: So we're seeing this in our

portfolios because of the rates. Like I say, we've got 300 since January subordinations. That's not all the -- that's not the payoffs. We have 13 -- since July 1, 13.7, or almost $14 million in CHDAP money -- down-payment assistance has come back into CalHFA. So there's a lot going on.

CHAIR JACOBS: Thanks, Ken.

MR. GIEBEL: Thank you.

CHAIR JACOBS: Thanks, guys.

MR. AWADIS: Thank you, all. I appreciate it.

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Item 12. Reports

CHAIR JACOBS: All right, I know we've got a number of reports that were included in our packages.

Did anyone have any questions about any of them? Or some auditor's reports and some stuff on the remaining derivatives and ventures outstanding.

Does anyone want to review any of those?

(No response)

Item 15. Public testimony

CHAIR JACOBS: Any members of the public wish to speak to the Board?

(No response)

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Item 14. Discussion of other Board matters

CHAIR JACOBS: Any other board matters that anyone wishes to bring up?

(No response)

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Item 16. Adjournment

CHAIR JACOBS: Amazing. Okay.

Thank you, everyone.

Thank you, staff.

And with that, we will close.

(The gavel sounded.)

(The meeting of the Board of Directors concluded at 12:45 p.m.)

REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 2nd day of April 2015.

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