STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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Department of Consumer Affairs
1747 North Market Boulevard
Hearing Room (HQ-2-#186)
Sacramento, California

Tuesday, November 10, 2015
10:05 a.m. to 12:38 p.m.

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Minutes approved by the Board of Directors at its meeting held: January 13, 2016

Attest: [signature]

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

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A P P E A R A N C E S

Board of Directors Present:

MICHAEL A. GUNNING, Acting Chairperson
Vice President
Personal Insurance Federation of California

ANAMARIE AVILA FARIAS
Martinez City Council and
Housing Authority of Contra Costa County

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

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

JANET FALK
Formerly Vice President, Real Estate Development
Mercy Housing

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

PRESTON PRINCE
CEO & Executive Director
Fresno Housing Authority

SUSAN RIGGS
Acting Director
Housing & Community Development
State of California

TIM SCHAEFER
For John Chiang, State Treasurer
Office of the State Treasurer
State of California

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A P P E A R A N C E S

Participating CalHFA Staff:

TIM HSU
Director of Financing

VICTOR J. JAMES
General Counsel

JAMES MORGAN
Housing Finance Chief

JOJO OJIMA
Office of the General Counsel

DI RICHARDSON
Director of Legislation

ANTHONY SERTICH
Director of Multifamily Programs

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A P P E A R A N C E S

Public Testimony:

LISA BATES
Deputy Director
Department of Housing and Community Development
State of California

DAVID MADRIZ
California Housing Advocates(s)

MARK STIVERS
Executive Director
California Tax Credit Allocation Committee
California State Treasurer John Chiang

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BE IT REMEMBERED that on Tuesday, November 10, 2015, commencing at the hour of 10:05 a.m., at the Department of Consumer Affairs, 1747 North Market Boulevard, Hearing Room (HQ-2-#186), Sacramento, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON GUNNING: I'd like to call to order the board of directors meeting for the California Housing Finance Agency.

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Item 1. Roll call.

ACTING CHAIRPERSON GUNNING: JoJo, you ready? Maybe? Roll call.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Here.

MS. OJIMA: Mr. Schaefer for Mr. Chiang.

MR. SCHAEFER: Here.

MS. OJIMA: Ms. Gunn for Dr. Imbasciani.

MS. GUNN: Here.

MS. OJIMA: Thank you.

Ms. Falk.

MS. FALK: Here.

MS. OJIMA: Ms. Avila Farias.

(No audible response.)

MS. BOATMAN PATTERSON: She said she was running a little bit late.

MS. OJIMA: Thank you.

Ms. Johnson-Hall.

(No audible response.)

MS. OJIMA: Mr. Hunter.

(No audible response.)

MS. OJIMA: Mr. Prince.

MR. PRINCE: Here.

MS. OJIMA: Ms. Whitall-Scherfee for Ms. Riggs.

MS. RIGGS: Or Ms. Riggs.

MS. OJIMA: You are here. Thank you.

MS. RIGGS: In the flesh.

MS. OJIMA: Nice surprise.

Ms. Sotelo.

(No audible response.)

MS. OJIMA: Mr. Alex.

(No audible response.)

MS. OJIMA: Mr. Cohen.

(No audible response.)

MS. OJIMA: Ms. Patterson.

MS. BOATMAN PATTERSON: Here.

MS. OJIMA: Mr. Gunning.

ACTING CHAIRPERSON GUNNING: Here.

All right, thank you.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON GUNNING: Perfect.

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Item 2. Approval of the minutes of the September 10, 2015 Board of Directors meeting.

ACTING CHAIRPERSON GUNNING: All right. Next on the agenda is approval of the minutes from the September 10th board meeting. Has everyone had a chance to look through the minutes?

Any questions? Comments? Editorials?

MS. CABALLERO: I'll move approval of the minutes.

MR. PRINCE: I'll second.

(Court reporter interrupted to clarify record.)

ACTING CHAIRPERSON GUNNING: Moved and seconded.

JoJo, take roll call.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Mr. Schaefer.

MR. SCHAEFER: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: Yes.

MS. OJIMA: Ms. Falk.

MS. FALK: Yes.

MS. OJIMA: Mr. Prince.

MR. PRINCE: Yes.

MS. OJIMA: Ms. Riggs.

MS. RIGGS: Abstain.

MS. OJIMA: Thank you.

Mr. Gunning.

ACTING CHAIRPERSON GUNNING: Approve.

MS. OJIMA: We only have six.

MR. JAMES: Carry it over.

MS. OJIMA: Ms. Avila Farias will be here later.

ACTING CHAIRPERSON GUNNING: Okay. We'll push that over, then.

MS. OJIMA: Yes.

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Item 3. Chairman/Executive Director comments.

ACTING CHAIRPERSON GUNNING: Item No. 3, chairman/executive director comments. I don't have any comments, so executive director comments.

MS. BOATMAN PATTERSON: I have a couple of things I wanted to bring to the Board's attention. Key dates for the National Council of State Housing Agencies events: The legislative conference this year will be February 29th through March 2nd in Washington, D.C. The Housing Credit Conference, which will be in Seattle, Washington, this year, is June 13th through 16th. The Executive Directors Workshop is July 17th through 20th, 2016, in Vermont.

Generally following the Executive Directors Workshop they have a board of directors annual training session, so I'm anticipating -- they don't have a date for that yet, but I'm anticipating that will be sometime late July, early August. And so as soon as I get those dates, I'll make sure to let the Board know so if the Board has a desire to send any Board members to that board member training. I went a couple of years ago. Dalila went a couple of years ago. We did find it very, very good. We tried to send two board members this year, but we had a hiccup with the airlines, so we want to make sure that we take advantage of that.

And then the Annual Conference and Showplace will be in Florida, and those dates are September 24th through 27th.

Additionally, we had on the agenda for the last board meeting the briefing of the Roberti Affordable Housing Sales Program. We have postponed that. We don't want to get out in front of Caltrans on any of these issues, and Caltrans has an outstanding RFQ for their real estate services to help them implement their program, and so we're going to be back before the Board probably the January 1st quarter to provide you with a briefing of the program. And then following a briefing of the program, we'll come back to you for approval of the loan product. We just didn't want to get out in front of Caltrans, and some of their dates have been pushed back. Their regulations have not yet been finalized on the program, and they do have this outstanding RFQ, and so that's why we are postponing briefing on that until we -- Caltrans has made a little more progress in the program.

We will be -- I think JoJo is polling some of the board members now. We have a -- we need to go back for -- we need to get additional allocation of mortgage revenue bonds on our single-family side to deal with the mortgage credit certificate issue that we're dealing with, and we want to do that prior to the CDLAC board meeting in December, so she'll be polling the Board on those issues.

And lastly, you all had asked me a couple of times for a report back on a key exempt -- process for key exempt staff evaluations and salaries, and you will find that in tab 9E under your reports. So if you have any questions about that, I'll be available under the reports section for that.

And so that I believe is all of the --

everything that I have to report out on.

ACTING CHAIRPERSON GUNNING: Thank you, Tia.

Any Board members care to comment or additional comments?

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

ACTING CHAIRPERSON GUNNING: Okay. Moving on to item No. 4, Report of the Chair of the Audit Committee. The Audit Committee met this morning, committee of one. Dalila is the other member, and she wasn't here. But we also are short a member, but we do have good news. Mr. Schaefer has agreed to step up into the breach and become a member of the Audit Committee, so very happy to have his expertise and knowledge.

MR. SCHAEFER: Why don't you reserve judgment on that.

ACTING CHAIRPERSON GUNNING: Judgment's been made.

MR. SCHAEFER: Okay.

Mr. GUNNING: But more importantly, you know, in watching this committee for this long and seeing the depths of despair we were at, this was a great audit in terms of operating income before transfers was 88.3 million for fiscal year 2015, and that's compared with an operating loss of 33 million for the prior fiscal year, so certainly a turnaround by the Agency we're very happy with.

Also, I think, which is also reflective of the California economy, delinquencies are down. They're at 7.3 percent, and it was 9.7 percent last year, so -- and the number of loans is down as well, so it all speaks of the health of the Agency and this track we're on of improving our financial situation, so good to hear that from the auditor.

We will be looking at beginning a new process next year. And so, Tim, just a heads-up in March we'll be thinking about auditor processes.

So a good report. Standards continue to change, and we're very happy with CliftonLarson. And Nancy Jones, who was here today, continues to steer us through all those changes, so very appreciative.

Thank you, Nancy.

That's the report. Questions? Comments?

Great.

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Item 5. Update and discussion on the Tax Credit Allocation Committee (TCAC) Regulations.

ACTING CHAIRPERSON GUNNING: Well, it's not often you get to introduce a colleague and friend, but item No. 5 here, Mark Stivers from TCAC is here. I've known Mark for as long as I've been in the building in different capacities.

So it's great to have you here, Mark. So come on up and share with the Board.

MR. STIVERS: Good morning, Members of the Board. I'm Mark Stivers, the executive director of the Tax Credit Allocation Committee for the last year. Many of you knew me in my previous capacity with the Legislature and still adjusting to the new role.

So in January, Treasurer Chiang took office, and as the chair of the Tax Credit Allocation Committee, he asked me and my colleague, Jeree Glasser-Hedrick of the Debt Limit Allocation Committee, to really do a comprehensive review of our programs and our regulations. And we started off -- is that working now? Okay.

We started off, we did 15 listening sessions around the state in the months of February and March. We had a lot of suggestions of things that we could improve. We went back and kind of went internal at that point, went through all those exhaustive list of changes and came out in July with a pretty comprehensive package of regulation changes, both at TCAC and CDLAC. And we went through a public comment period, and ultimately on October 21st, both committees adopted the regulation changes. And I'm going to spare you the hour-and-a-half sort of PowerPoint of all the things that we did. I'm going to try and summarize here to give you a little bit of context of what we were trying to do.

And just a little bit of background, you know, we really have two tax credit programs that we administer. One is the four percent federal low income housing tax credits. Those are not limited. They derive from the use of tax-exempt bonds, which in theory are limited, but we have so much excess bond capacity that, really, we could do a ton more business on the four percent side. We are underutilizing the federal resources that we have available to us.

And so a big -- a big goal of ours really was how do we try and make more projects feasible so we can utilize more of those federal four percent tax credits and tax-exempt bond resources? I think we realized that the main impediment to using the full resources is that the financing gaps are just too big for these projects, and we realized that we can't solve that by ourselves. It really will take additional state, federal, or local resources to fill those gaps. We felt like at the margins we could impact sort of the feasibility of projects in a significant way, at least, you know, chip away at that excess capacity of bond authority.

So on the nine percent -- we also have the nine percent federal low income housing tax credit program. That is a capped amount of resource from the federal government. We are oversubscribed significantly on that. We get two applications for every dollar of credit that we can put out. It's a highly competitive process, and so we did have some goals there too in terms of trying to reduce costs overall for projects but more was trying to implement various priorities.

Going back to that four percent tax credit program, again, we were really trying to, again, make projects feasible. And there are two ways we are trying to do that. One is to increase the basis in projects. And basis are sort of those allowable costs that get calculated when we figure out how much tax credits the project is eligible for. And the second thing we were trying to do was reduce costs at least we add to projects in various ways. And by doing that, we felt like we could squeeze that gap from both sides. We could bring in more tax credits to the projects and fill that gap, and we could reduce the costs of the project. That financial feasibility gap would shrink and hopefully in enough cases it would get down to zero and make those projects feasibility so that they could come forward.

Initially, we've heard from a number of developers. We've got one developer who says he's got a thousand units in the pipeline ready to go that are now feasible. From other developers I think, you know, not quite that dramatic, but we've heard a number of projects say this project is now feasible where it previously wasn't.

So in your packet there was a sort of summary page of the changes that we went through. But on that basis side, there were really a couple things that we did. First of all, with those four percent tax credit projects, we eliminated our cap on developer fees, but we require that entire increase to be deferred.

And what that does is -- most states allow developers to have a developer fee of 15 percent of their basis. California allows 15 percent up to a cap of $2 and a half million and nothing above that cap. And so what we did is we eliminated that cap. You can get the full 15 percent of the basis as a developer fee now. That entire increase has to be deferred and taken out of project cash flow.

And what that does is it increases -- by increasing the basis, you bring more tax credits into the project. But by deferring that increase, you're not increasing the up-front capital needs to develop the project. So you don't need to put more money into the project, but you get additional tax credits into the project, and, therefore, you can shrink that gap.

The second thing we did on increasing basis is there are some other projects that don't have a lot of value. They have a lot of debt on them. The rents are very low. They don't intrinsically have a lot of value. And we -- when those projects are purchased, they come in for rehabilitation, they -- the acquisition basis is important. You need a lot of acquisition basis to make that project feasible. And when there's not much value, there's not much acquisition basis.

But in talking with the tax attorneys, we came to the conclusion that if the debt is assumed on the property, that's kind of the same as sort of paying for the -- if I'm a buyer and I'm taking on somebody's debt, that's kind of the same as paying for the property, and we can use that assumed debt as the amount of acquisition basis, even if it's higher than an appraised value. And so for those low value projects, that will increase the basis and the amount of tax credits going into the project.

In terms of reducing costs, a lot these apply both to the four percent and nine percent side, but one of the things we're doing is we de-emphasized our sustainability to some extent. We -- as you all know, the building codes in California are some of the most stringent in the country. We have some of the most efficient new construction buildings anywhere. We have always required -- we have required our projects to be significantly above codes. And while that has a good public benefit, it also adds costs to projects, and we felt like on that four percent side where we're really trying to use those resources, for new construction we just went back to code. If you can meet codes, which are, again, the most stringent in the nation, we want you to sort of move forward and build affordable housing.

On our nine percent tax credit side, we still want people to be above codes because it's competitive. We figure that's a good scoring criterion. But instead of wanting them to be LEED Gold, you can now get maximum points by being just a LEED certification in general. So we sort of de-emphasized the scores category on that nine percent side, and on the four percent tax credits we went down to code for new construction.

We have sort of reduced the number of three-bedroom units that are required for large family projects. Three-bedroom units are more expensive because they're bigger. And we've heard from the development community that the demographics, the demand for that, is going down in a number of cases.

We increased the flexibility of projects that come in as sort of scattered site projects, especially for rehabilitation. So a number of rehabilitation projects, if you think of one site on its own, it's not particularly financially feasible, but if you can combine that with two or three or four projects, you can reduce transaction costs and kind of bring them in as a portfolio rehabilitation project. That helps reduce costs, and that's something that a lot of people are looking forward to.

We've eliminated the need for a market study in projects that are already existing affordable housing developments. We figure if you're actually fully occupied and you're not raising your rents, you're going to do a rehab, we know that there's demand for that project, you can save on the market study. We've allowed projects that are applying for our competitive state credits to -- before, we required them to apply to CDLAC first and then come to us. And even though our project -- our four percent state credits were competitive and so therefore they might not get them, we said, hey, look, don't apply to CDLAC until you know you've got our award.

And so -- and so there's a lot of these different things that are sort of listed in the document that each one in and of themselves is probably not a major cost savings, but the idea is that when you kind of aggregate all these different things, you sort of reduce some of the costs that we sort of add to the projects. You add that to increasing basis and the amount of credits coming into a project, and, again, the hope is to squeeze that gap and make more projects feasible.

We did a couple of other things I will mention as well. Just we spend a lot of time talking about accountability. And the one thing that there was a lot of -- the one thing that we ended up doing is that we said that for projects that are coming in for a new -- or any existing projects that we have or future projects, if there is a refinance or a sale of the property that generates a lot of equity and that equity is going to be distributed to the owners, the general partners or the limited partners of the project, we want to make sure that the rehab needs of that project are sort of taken care of first.

And I think what we were seeing was that, you know, there was enough -- a good bit of equity being taken out of projects. Those projects were then coming in and asking for tax credits to do all their repairs on the building. And it seemed like, hey, look the equity was there; why are government resources picking up the tab for the rehab when the project had sufficient resources to do it in and of themselves?

And so what we are now requiring is that going forward any projects that go through a refinance or sale where there's equity being taken out, we want to see the two-year rehabilitation needs of the project sort of set aside with equity. That's going to be paid for out of equity. And then we want to see the annual reserve contributions that are made to replacement reserves over time be right sized to accommodate the rest of the 15-year rehabilitation needs of the property.

So the idea, again, is that equity first before sort of -- I mean rehabilitation first before the equity is being taken out. And that -- you know, we worked a lot with the development community on that. And while I wouldn't say there was consensus on that, there seemed to be a good amount of buy-in on that at the end of the day.

We made a number of other changes on our nine percent program. I probably won't go into them in too much detail. Probably the biggest one that we talked about was our tie breaker. Right now on our nine percent competitive program, everything really comes down to the tie breaker. Almost all the projects score maximum amount of points. And the tie breaker, really, has had two components: One, a public funds -- the percentage of public funds in the project is what has driven the tie breaker. That's the main component. And we've also had a component for credit efficiency, how much -- are you asking for less credit than you otherwise be eligible for.

And on that first public funds component, two things we did. One, we broadened it to say we're also going to reward sort of private donations. So if a private entity donates land or soft financing, meaning a loan that doesn't have sort of annual debt service on it, we will count that towards the tie breaker. We're trying to bring in -- I don't think we have a ton of folks who want to donate land or free money, essentially, but to the extent we do have corporations or other entities or nonprofit housing trusts that want to contribute land who aren't public entities, we would count that because we're sort of growing the pie of subsidy that's available to affordable housing.

Now, the second thing we did, which is a little bit more controversial and won't take effect for one more year, is that we added -- we multiplied that first part of the tie breaker by size factor. So projects with 50 or more new construction units will get sort of a bump to their tie breaker, and it's sort of on a sliding scale. So a project with a hundred units would have that first component tie breaker multiplied by 1.25. Projects that -- with 150 units of new construction units would have that first component multiplied by 1.5.

And there's really a twofold reason that we were going for that. One was that we are trying to -- with the nine percent program, we're really trying to incentivize new construction or promote new construction. New construction is really difficult to do with these four percent tax credits, and so the deeper subsidies that the nine percent tax credits provide, we really want to reserve that as much as possible, not exclusively, but as much as possible.

Rehabilitation projects are much more feasible -- are -- it's much more possible to do rehabilitation projects with the four percent than new construction projects.

The second thing is out of the cost study that this agency and ours jointly and HCD did a couple years ago, one of the things that came out of that cost study was that economies of scale reduce costs. And we were trying to sort of incentivize sort of larger projects as a whole. So rehabilitation projects you can't change the size, but on new construction you can actually -- we thought if we incentivize larger projects, we would help sort of bring the costs down overall. And so that was sort of the second change to the tie breaker.

The third one that we made had to do with that second component, which is credit efficiency. And what we were finding is that most of the credit reduction that people were requesting was simply a function of they had lot of public funds. So they had a lot of public funds from the local government or from HCD, and they were using that to reduce their credit requests. And when there were a lot of other public funds, that may have been good. It stretched the credits further. But right now, there's not a lot of other public funds, and we're finding that a lot of local governments are particularly under pressure to over-subsidize properties more than they otherwise would to be competitive.

And second, when -- by giving them credits for sort of public funds in both factors, up-front and when they reduced their credit request, we were double counting the value of public funds in the tie breaker. And so we changed that in that sort of second credit efficiency category to add back any credits that are just being supplanted by public funds.

And so those are sort of the main changes to the tie breaker. You know, the tie breaker is always controversial. There's not consensus on any of that, but I think at the end of the day most folks have agreed to sort of, you know -- or are resigned to that fact and have started to move forward and sort of looking at their projects coming forward.

So I will go ahead and stop there. I'm happy to spend more time on any particular changes, if you want to talk more on the details that you see on that sheet in front of you. We are hoping that we will see a good amount of uptick in our business on the four percent program next year. And on the nine percent side, again, we're just hoping to get more new construction, more special needs projects and in a small way sort of reduce the costs of all housing across the board a little bit.

ACTING CHAIRPERSON GUNNING: Great. Thank you, Mark.

MR. STIVERS: You're welcome.

ACTING CHAIRPERSON GUNNING: When was this adopted?

MR. STIVERS: They were adopted October 21st, so they are currently in effect for 2016. CDLAC, our companion entity, they have to go through the Office of

Administrative Law, so theirs are still not quite final yet, but we expect their corresponding changes to be final in earlier November or actually maybe even today. I think November 9th is their target date.

ACTING CHAIRPERSON GUNNING: Questions from the Board?

MS. FALK: Actually, this isn't a question for Mark, it's more a question for Tia and the staff. Is our -- do we have some limitations on the developer fee as well? Do they now match this?

MS. BOATMAN PATTERSON: Tony?

MR. SERTICH: Is this on?

MS. BOATMAN PATTERSON: I'm sorry I can't remember exactly what limits we set.

MR. SERTICH: So on our general lending program, there are no limitations on our general program, so we defer to TCAC.

On subsidy policy we put out, we in general defer to TCAC and just layer on different deferral requirements that we put on there. So we require a one-to-one deferral match. So on large projects, TCAC may already be requiring that, if it's -- if they're receiving more than a $2 and a half million developer fee.

MS. FALK: Ours is 50 percent, right --

MR. SERTICH: No.

MS. FALK: -- on 2 and a half million?

MR. SERTICH: No, our general lending --

MS. FALK: No, I mean on the subsidy.

MR. SERTICH: On the subsidy?

MS. FALK: Yes.

MR. SERTICH: Our subsidy, we still -- the overall developer fee, it's whatever TCAC uses.

MS. FALK: Okay. Okay.

MR. SERTICH: And then we -- the deferral may be -- it's a dollar for dollar based on the subsidy we're putting in up to 50 percent.

MS. FALK: So 50 --

MR. SERTICH: 50 would be the maximum deferral.

MS. FALK: So might we end up requiring more deferral than TCAC requires?

MR. SERTICH: We may in certain cases if they're receiving a subsidy loan from us as well.

MS. FALK: Okay.

MR. SERTICH: In certain cases.

MR. STIVERS: And just to add to that briefly, HCD on their multifamily housing program, which is very competitive, has lower -- it's a competitive process, so they have lower developer fees as well. And there's nothing that prevents a local government or any public entity from having a lower limit than what we are setting, and that's fine. That's okay if I ask. There's no conflict there. We would just -- the project would come in with a lower developer fee than what we would otherwise allow.

MS. FALK: We just had some -- quite a bit of discussion about not squeezing developers too tightly, so that's why I was asking.

MR. STIVERS: Well, the idea of this wasn't to sort of reward developers. We thought that the $2 and a half million developer fee was fairly adequate in most cases. It was just that we were trying to, you know, allow additional basis in the projects, was our goal.

ACTING CHAIRPERSON GUNNING: Tim.

MR. SCHAEFER: Secretary.

MS. CABALLERO: Thank you for the presentation. I appreciate the level of work that went into really looking at this and trying to make it work in today's economy, kind of the new reality that we're facing with the end of redevelopment agency resources.

When I've talked to developers, both from the HCD and the CalHFA perspective, a couple of things that come up, one is the inconsistencies between the programs that create this -- this challenge of trying to meet all the different conditions that are a little bit different. I think some of them are resolved by the changes that you've made. But the other thing that they have talked about is having three separate applications that involve three separate contracts, which means attorney's fees three different times on a project, then.

So one of the discussions we've had is whether there's a possibility of having a master application that then may have some addendums that might pertain to the different funding sources so that there would be one portal, if you will. Because although we all understand the difference in terms of where the money comes from, from the outside world, it's the state, period. And so the more that we can streamline that process, I think the better off -- one, is that the less cost the developers will have to pay for outside help to come in and do the paperwork, but, two, it's just -- it keeps us talking to each other so that we know any changes are going to have a -- may have an inconsistent result with one of the entities.

And it also, I think, really aligns with what the Governor's goals are, which is to create efficiencies and to look at ways that we work together kind of in partnership. So I want to encourage that moving forward. I believe that's going to be really important.

MR. STIVERS: I couldn't agree with you more. Your next presentation is on the uniform multifamily guidelines from HCD, and I think that's where some of this consistency is going to come as well.

We've also worked with HCD closely on sort of the timing of their award cycles to conform with our award cycles. This year we were all under the gun because they were -- we had an application deadline of July 3rd, and they were going to hopefully make awards June 30th. It wasn't quite clear. And it was -- that's a very tight turnaround for developers to make changes to their application at the last minute. It did cause some confusion in one or more cases. So I think we've aligned that for next year.

In terms of the application process, we need to come back with some more time on that as well. There was at one point I know a lot of work done on the uniform multi-family application and then there was sort of addenda, as you described. I get the sense we've sort of fallen away from that to some extent, although I've probably -- I'm not as familiar with HCD and CalHFA's applications as I should be to know exactly where we stand. But even with our own -- even within the Treasurer's Office between the Debt Limit Allocation

Committee and the Tax Credit Committee, which on all four percent projects you have to go to both, you know, we have separate applications. And, you know, that's one place where we could start to bring that together and have one application for those two resources together, because inherently they are together, where the others sort of sometimes bring in HCD, sometimes bring in CalHFA, sometimes bring in us.

That was the goal that we all shared, and I think the four of us directors have all been meeting on a regular basis, and that's the kind of thing that we would like to iron out and make us as efficient as possible. We all share that goal.

MS. CABALLERO: Great. Thank you.

ACTING CHAIRPERSON GUNNING: You had a question?

MR. PRINCE: So, Mark, Preston from Fresno. I love the energy that you're bringing to the department, so thank you very much. It's very exciting. Sometimes your changes scare those of us out in the field, but you always listen to us, and so I really appreciate how you're approaching your office.

I wanted to bring up the Affirmatively Further Fair Housing and its impact. Have you thought about how that might impact you down the road?

MR. STIVERS: We have a couple answers to that, so just, as you know, the Supreme Court heard a case about -- that dealt with the tax credits in Texas. Texas has allocated most of its credits or a large portion of credits to low income areas, and they haven't done enough to create opportunities in sort of higher income areas.

And I think, one, we are very concerned about that, and we share that goal as well. We're not exactly sure where we stand at the moment, and so with HCD's -- actually HCD is taking the lead. We have engaged some folks from UC Berkley to help us look at data, sort of where we are today. I would say it's a very nuanced kind of analysis to do because, number one, you know, rehab projects are what they are. You're not going to change them. And to the extent that you're doing rehab projects, you're going to get different than maybe where you're doing new construction. If you look historically, the answer is different. At some point projects are driven by where you get a federal basis boost, and one of those is qualified census tracks, and there's just a lot of nuances that go in there.

But -- so we're going to do a data analysis, number one, to some extent to see where we stand.

Number two is we did in this round -- well, one -- let me back up. We already have a number of things in our competitive application process and our scoring process that I would think help create opportunity. We want to be near transit, near schools and whatnot. So we think that that does help drive folks to have greater access to job centers and whatnot. It doesn't necessarily have to do with the location of the housing per se, but at least they're near amenities that provide opportunity.

We also this year proposed that with respect to family projects that are near schools that if it was a high quality school, they would get additional points. And we thought that, you know, that would be -- high quality schools are generally considered one of the determiners of opportunity and that we could go that route. We pulled that from the final reg package only because the State is in flux in how they score schools. And we had originally been led to believe that by September that new sort of process would be out, and it, reading the press articles, is very controversial and may not happen, and who knows what it will look like. So we were getting a little ahead of ourselves trying to put in a scoring factor for a scoring metric that we didn't know when or if it would exist and what it would look like.

But I think we remain committed on that issue, and, you know, we'll look at other ways of moving forward in that regard, especially once we have some more data so we know where we stand. But we're not going to wait for the data necessarily, but that will help inform us.

MR. PRINCE: Thanks.

So the 30th anniversary is coming up next year. I heard a great presentation from Buzz Roberts from the National Association of Lenders, something like that. I can't remember his exact organization. And he had some really exciting ideas of, like, if it's the 30th anniversary, let's ask for some audacious changes to the tax credit program. So I'm just kind of curious if that's something that you or through the finance association agency are looking at, some kind of comprehensive thoughtful changes based upon 30 years of history.

MR. STIVERS: Are you referring to federal congressional changes?

MR. PRINCE: Yes, exactly.

MR. STIVERS: I know our state sort of -- the National Council of State Housing Finance Agencies always has a legislative agenda, and we've been sort of supportive of that. Their main things right now are getting an extension of the nine percent tax credit rate, which -- you know, permanently or even temporarily, but we talk about the nine percent tax credits, but the percentage isn't really nine percent. It's really 7.69 or something like that, and that makes a big difference. And so that is one area where I know that they've always been focused on.

I'm not aware that they have, you know, tried to make major reforms. I think when they look at Congress and sort of the general stalemate that exists on a lot of issues between the executive and legislative branch in D.C. and the unlikeliness that major tax code overhaul will occur, I think they're looking at fairly small goals in general. But we are part of that process, and we generally look to them to take the lead, but other than sort of the things that have been on the table for a long time, I'm not aware they're proposing major changes to the program.

MR. PRINCE: Yeah, I was -- I just heard them last week, and I was pretty surprised. These ideas just pouring out more lending so you can go above 60 percent but then with a -- to get tax credit units above 60 percent but make sure that you're doing deeper targeting within the affordable units so you can make those mixed income communities really work.

One other thing I've also thought is that to make permanent supportive housing work would be to make a 12 percent tax credit, something that bumps it up so that we don't have to have any debt on the supportive housing or something like that. Or, as you talked about, what's in basis, include reserves, service reserves, within basis so you can actually fund it, which is something we did in Fresno at Renaissance at Santa Clara. We were able to fund a service reserve, which to me that's what will make permanent supportive housing work.

MR. STIVERS: Not just federal, but make a state program as well.

MR. PRINCE: Right, exactly. Right. There's MHSA which was really a great partnership.

So I just think that's an exciting opportunity at the 30th anniversary to maybe do something.

One last question. AHSC and nine percent credits, is there an update on how that's working? I've heard rumors that the AHSC people don't like that they're coming in first, that they want the tax credits awarded first or something like that. So have you been working with them to think about timing?

MR. STIVERS: Well, the Strategic Growth Council and HCD have had -- put out proposed changes to their program, the HFC program, and -- well, to back up, they funded a number of projects that came in for our second round last year of tax credit awards. I think six came in in our second round, and we funded three just through our normal competitive process. And so we have really urged them to sort of push those AHSC program projects to the four percent tax credit realm.

Two reasons, one, we're already oversubscribed on nine percent, so we're adding fuel to the fire. We're undersubscribed on four percent and your gap will help make those projects feasible, so let's use that underutilized resource. And two, just from a self -- from their own self-interest, we're not funding half your projects and so we're awarding them and then they're going to kind of sit or they're going to die. So if you go the four percent route, you will have certainty that they are going to work.

So the proposed changes that are out there is that they would essentially require projects to go through the four percent tax credit route. It does say that technically you could get a nine percent award first of tax credits and then go through AHSC, but if you had an award of nine percent tax credits -- well, we wouldn't award it unless you were fully funded. If you were fully funded, you wouldn't need to go to the AHSC program.

So in essence, it really is requiring folks to go to the four percent program, and we have been very supportive of that change. We'll see if that, you know, stays through the process, but we've been very supportive of that.

MR. PRINCE: Great. Thanks.

ACTING CHAIRPERSON GUNNING: Tim.

MR. SCHAEFER: I have a question, two comments first to Secretary Caballero's question about the unified application. I don't want to try to speak for the housing, but I will tell you in the Treasurer's Office where we have 16 or 18 boards, commissions, and authorities domiciled, there is a very -- there's a chromosomal urge at this point in the Treasurer's Office to streamline application processes in general. So the ecosystem in which TCAC and CDLAC are operating is consistent with that, and I think you should expect to see some movement on that in the future.

I've learned, because I'm a technology Luddite at times, that there's much more to this than meets the eye, to unifying and streamlining, so I'm very respectful of the amount of time that's being taken, but be assured that it is occurring in a more organic way, not just exclusive to the housing agencies.

And the second comment I'd like to make, I'd like to just give a special shout out to Mark and Jeree on the superb work they've done. Because I live in the Treasurer's Office, I've seen the processions back and forth between the executive office and Mark and Jeree. And it's hard for me to describe to you just now laborious, intensive, and dedicated that process was. It's what's gotten us to where we are today. The Treasurer is very proud of the outcome. Mark and Jeree should be very proud of the outcome. And I wanted to make sure we gave them some special acknowledgment in that respect.

MR. STIVERS: Thank you.

ACTING CHAIRPERSON GUNNING: Thank you very much, Tim.

Any other questions, comments by the Board?

Anything to add?

MR. STIVERS: I would just like to thank Secretary Caballero for her service to CalHFA and to the State for so many years.

I understand you're heading back to your hometown.

MS. CABALLERO: Thank you.

MR. STIVERS: I appreciate working and dealing with you over the years.

MS. CABALLERO: Thank you very much.

ACTING CHAIRPERSON GUNNING: Thank you, Mark.

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Item 6. Update and discussion on Statewide Housing Plan.

ACTING CHAIRPERSON GUNNING: Item No. 6, Update and Discussion on Statewide Housing Plan. I believe there's a handout that was received by Board members.

Lisa Bates.

MS. BATES: Good morning, Everyone. Lisa Bates. I'm Housing Policy deputy director at HCD, and I am noting the interesting juxtaposition of agenda items. So we were very detailed in the TCAC regulations; now I'm probably going to take you out to about the 50,000-foot level. Then Laura will come in, bring you back down to ground on the UMR update.

So there is a PowerPoint. I don't know if you -- you have it there in front of you, okay.

So briefly what I wanted to just be able to share with you is an update on where we are in the State Housing Plan. For those of you who have been tracking it, we are a bit delayed, but I think we're back on track, and hopefully we have some really engaging information to share with you in January. So today I'd like to give you a brief update.

Although it hasn't been visible, we have been working hard at trying to frame the narrative for the State Housing Plan. We have been looking at a collection of data, testing our assumptions, and looking at evidence along the way. As was sort of noted earlier, the bifurcation of our application processes also presents challenges with data, so the ability for us to get to a place where we have the data that we can better understand and utilize, I think, will be a paramount discussion as we work through the State Housing Plan.

But as we were working earlier this year and throughout this year on the State Housing Plan, we wanted to take a step back and sort of evaluate our approach as well as our internal capacity in the development of the narrative. And we actually hired a policy consultant who has really challenged us to think about building a plan that is very accessible and readable to the public. It's very hard for the public to understand the five different agencies that are in the state providing housing service, let alone what we do and how we interact with the housing market. And so it was refreshing to have someone who is a non-houser but a policy expert really challenging us to think about how we put together our data in a way that the public can quickly grasp in terms of the policy issues and programmatic things that we need to consider.

As I mentioned, the challenges are going to be data and also the fact that we do have a little bit of siloing going on at the State. In fact, the federal government just released a report looking at federal programs and the fact that they're very much in program segments and that you can't get a picture of the whole. But nonetheless, we are continuing to chip away at the data and the information in our programs, and we have been developing an internal GIS capacity, which I know has been supporting Jeree and Mark in some of their presentations, so now we have better ways of displaying our investment visually.

The goal of the plan, which would be slide two, is really to fulfill statutory requirements that were set forth in our statute. But more than that, it's to show the broad context of housing issues, expenditures, policies, and outcomes and to make recommendations about how to best use our current and new financial resources, as well as try and lean a little bit into maybe some regulatory policy issues.

In the framing of the larger context of California, we know that we have a large population that is not evenly distributed and thereby probably necessitates a little bit more varied or differentiated approach in how we conduct our business and do our funding investments.

In addition, we know that there is likely to be about another 1.8 million units that we're going to need to produce in the next ten years. And as you can see from the slides that were presented, there's a lot of growth pressure inland and in the coastal areas. And so what we're hoping that the Housing Plan will help also frame for us is how does California meet the demand for new housing in a more sustainable way and continue to strive for greater affordability, which is the bread and butter of what our four agencies are typically involved in.

In creating the plan, we do have to come up with a number of how much housing need there is. And we spent a considerable amount of time working with the Department of Finance, demographers, and economists in determining a reasonable estimate of the units needed in the next ten years. We're concluding those discussions, but as the PowerPoint references, there is a need for 1.8 million more units in the next ten years. And to no surprise, we're under producing to meet that projected demand. And we can't also forget the cost of -- the existing cost burden and affordability crisis that we're in as some of our lower income residents, 2.4 million lower income households, are paying more than 50 percent of their income for housing.

So I didn't put any more slides in there about data. I know many of you are very well aware of the affordability issues in California. I just wanted to mainly give a couple of slides to set the context and that, you know, we're going to be looking at government's role and how it relates in the housing system basically in two broad functions. We are a regulator of certain activities, such as building standards and land use, through housing law and general plan development and the funding of housing programs that are increasingly designed to meet either affordability or sustainability.

And you heard earlier from Mark his tension that he was having in the TCAC program as how far do we go on the sustainability issue, and so that is going to be a continued tension in the State Housing Plan in terms of how do we grow, meet the demand for growth, grow in a sustainable way, and meet our affordability goals.

In addition to that broad work, we did also take a deeper dive into some policy areas that I just want to share with you and will be coming forth as part of our discussions in January. One, we took a look at rural community issues. And we've had a team of three working for the last seven months on developing an analysis of what is happening to our rural communities and also farm worker housing issues. And so that deeper dive is in conjunction actually with the Office of Policy and Research, as the Governor's Office is currently on tour across the state talking with rural communities about rural community issues. Ours is focused more on housing. So the complement of the work that Office of Policy and Research is doing plus us, our work will be informing the housing plan and the discussions early next year.

We are also required to look at special needs populations. We've done quite a bit of that work through our programmatic development of the veterans housing and homeless prevention program and also homelessness in general for our policy on chronic homelessness in the last few years. In addition to that, we have contracted with CC -- the California Coalition for Rural Housing on a tribal needs housing study, the first ever across the state. And so that data and that information will be available to us in December for discussion early next year.

We will continue to look at housing preservation issues, working with CHPC. Also, the Air Resources Board has an extensive study going on about displacement with UCLA and UC Berkley, so that research will inform our thinking as well. And then internally CalHFA and HCD are really scrubbing through our portfolios and taking a look at the risk from a preservation standpoint within the existing portfolios.

On the land use side, you may be aware that there is a working group that was formed a few months ago with the League of Cities, CSAC, housing advocates, MPOs to really look at housing law. And that process is well under way. There's been about five meetings and a few more to go. And we anticipate that through those conversations looking at some of our housing law, we will be informed with new thinking on some land use components that we could present to the plan next year.

Preston, you talked about the Affirmatively Further Fair Housing Rule. We are also looking at tools that we can use as a state to better understand how our investments are being made.

One of the opportunities that Mark mentioned was working with John Powell's Haas Institute at Berkeley since they're sort of the forefathers of opportunity indexes, but also the State has a regional opportunity index that's been prepared through UC Davis, and so that's a very accessible tool that we've just started comparing all of the state housing data against that tool and trying to figure out what does it mean from our investments that we've made to date.

So toward the end of the presentation, I provided you a list of policy considerations that you may want to ponder between now and January. These are the questions that we are wrestling with at the policy level and that we hope the plan will help inform.

And then we also realize we need to get down into the programmatic level and really think through how does this 50,000-foot level translate to the activities in the programs, TCAC, CalHFA, HCD, all of us, how can that better inform our ability to better align our resources, as was mentioned before, and be more effective with the resources that we have.

And so in January we would anticipate being able to come back either to this formal board or to some focus group, but we're going to start our conversations in January and February with a lot of information that we've been gathering high level and then also at the programmatic level with these policy questions in mind with the hope that we would have a draft for circulation later in the spring.

With that, I'll stop and ask if you have any questions.

ACTING CHAIRPERSON GUNNING: Thank you, Lisa.

Any questions?

I just had one. On the first slide -- or the second one, growth forecast. Did you take into account growth along the bullet train or housing needs for that? Have you thought that through?

MS. BATES: You know, that's a good question. I will have to circle back with Department of Finance to see if they -- they take more of a demographic approach rather than an economic forecast, so my sense is probably this does not necessarily reflect the impact of the bullet train, but certainly that is something that -- I think this reflects just probably more the greater affordability in the Central Valley, but I will confirm that. I haven't heard from any of the demographers or the economists factoring that into their forecasts.

MS. FALK: I was wondering on the policy considerations, I know it's important to take into account that there are limited housing resources, but are you going to address in any way ways to increase housing resources?

MS. BATES: I look at my boss.

MS. RIGGS: I think our focus is really at this time looking at how we can really better align our -- the programs, the existing programs, to ensure that we're reducing administrative costs, duplication of things like collection of data, the joint application, things like that that can really reduce our collective overhead associated with the administration of programs. So I think that's really our focal point right now, things like taking the time to align the UMRs and the TCAC regulations and ensuring that they're as consistent as they possibly can be so we can marry those as well.

And then I think also just looking at, you know, kind of really reevaluating the way that we utilize the resources that we have, asking -- I think the preservation route, questions about the financial efficiency of how we invest our resources, especially in high cost areas, whether, you know, there's -- as we're seeing -- not to pick on TCAC -- deals that are being subsidized at extraordinary amounts right now in high cost coastal areas. Are we better suited in thinking about investing in preservation in those communities or emphasizing preservation? Do we want to look at mixed income in order to utilize four percent tax credits better? Obviously all of these have to be collective conversations, not just that we have within the four housing entities, but also with the broader stakeholder community.

And so I was just going to, if I may, just thank

Lisa and her team. This is a really daunting task, and there are some real difficult questions that I think we need to address, including the question of resources because, you know, for the time being we're not seeing any resources on the horizon. So some of the questions that we're going to be asking are difficult ones that's really difficult to get to it with limited data or with limited capacity to access the data. And so Lisa and her team are doing a really excellent job.

But I think the next step is going to be engaging the broader community and asking some of these questions, you know, because I think there's some pretty important things that we need to evaluate in going forward and perhaps looking at the status quo. We may want to reevaluate the status quo.

MS. CABALLERO: Along those lines, it occurs to me as I'm looking at the maps is part of this growth forecast is which comes first, the chicken or the egg. And so we know that the coastal region is more expensive, but what becomes an issue is what land use policies do those communities adopt and foster that either exacerbates the problem or that creates opportunities to actually build affordable housing.

And so it just seems to me because the State is fairly complicated politically as well as, you know, just kind of regionally, that we may need an overlay on this -- not to complicate it more, but -- that tells us a little bit about what are some of the best practices that are being utilized to build affordable housing. And to give an example, I had a recent conversation with a city council member from a community that I won't identify about what they did over the past 20 years to build affordable housing, and the answer I got was essentially, “Nothing. Our problem isn't as bad as it is on the coast, right?” I beg to differ, but there are communities that are pretty much the same size that have had inclusionary housing ordinance for over 20 years, have been building affordable housing without general fund dollars, putting their own money into affordable housing.

So that as we start looking at limited funds, it seems to me that we want to reward those communities that have adopted policies that increase densities, decrease some of the regulatory burdens about what you can do and what you can't do. So how you do that, I'm not sure, but that's going to be really important because you hear about coastal communities that will not allow construction over a certain number of floors, and you're going to need to if you're going to get the densities that you want.

And so it's not just how can we get resources to everyone, but it's how do you incentivize the expenditure of very scarce resources. And so maybe it's -- I would like to know, for example, who has trust funds? And some of those are businesses that have stepped up to develop and to create the trust funds, and that's -- so there may be a list of best practices that we want to look at and then kind of highlight as we look at where are we going to -- because the cheapest, frankly, is going to be to continue to build out in the Central Valley and have people drive two hours into the Bay Area because that's the job --

MR. PRINCE: We'll welcome them. They can stay.

MS. CABALLERO: Well, but it flies in the face of all our recent greenhouse gas and vehicle miles. And what's going to happen --

MR. PRINCE: The jobs could move to the Valley.

MS. CABALLERO: Oh, no, that's exactly right, but that's the question, is that how do we get those, that to happen, and then encourage people to live closer to where they're working. And it's -- all of our patterns have been to the opposite. Now, as we make this shift, to say we really want you to live closer to where you work. Then you have more free time, more time to spend doing whatever activities you enjoy. The quality of life is better. And whatever taxes comes with vehicle miles traveled, which is yet to be determined, right -- and that will happen through the general plan process because that's where OPR is going to be involved. How do we incentivize and are we really -- this growth forecast, is this based on jobs that will be created? I'm assuming that is what Finance is looking at. Or is it -- is it population growth that we're seeing right now?

MS. BATES: It's more a demographic model.

MS. CABALLERO: Yeah, see I -- that demographic model, if you take it out ten more years, I'm not sure that those places that are marked in the orange are going to build what they need to build. And you'll see those businesses leave or they'll go somewhere else, and so it -- somehow we've got to be able to create a framework that we're talking about, things where we're incentivizing and really keeping our economy going. Just my thought.

MR. PRINCE: Everything you just said makes me really sad for November 17th, but I'll keep that to myself. So -- but what you're saying really resonates with me. Thank you for this presentation. I think it's really thoughtful. What I'm a little fearful of is that it's looking at how do you take the -- work on the programs to make them more efficient, but not necessarily getting to what you just talked about, which is what's the vision, what's the -- because I've spent the last two years at the federal level talking about how I think national housing policy is ideologically driven and not based upon sound policy, and so that's what I think we need to get to.

I love the connection of housing to the greenhouse gases emissions. That makes sense to me. Housing is always seen as antipoverty, and yet I don't know if we have policy that shows that we're actually making investments that lead to changes within families' income and the outcomes for children who are in that affordable housing. So I think that there's this whole opportunity to ask the question of what are we trying to achieve with all of these investments?

And then my last kind of thought about it is that it's also about the conversation that happens. And I think -- I was just at FrameWorks Institute, and there were a bunch of PhDs from Harvard who are looking at what we say and then how is it -- what it triggers in people's minds. And many times the things that we say support affordable housing actually trigger in people's minds the exact opposite and leads to, like, the valorization of the individual and about the codification of housing as opposed to that housing has to be this network that we all are working together and has these outcomes that are really important. And it leads to people saying, well, housing -- "I earned my house. Why can't someone else?"

And so I just think it's an opportunity to think about policy rather than just making sure the programs will work more effectively and efficiently. But it's still exciting and I think ambitious to be done by summer of 2016.

MS. BATES: This is a beautiful conversation in that that's what we hope that this plan will invoke, is that broader policy context and then also include in that context the limited resources available.

MS. RIGGS: So if I can, just to address the Secretary's comments, I think we do have some tools in place, and I think what the hope for this plan can be then is to move us towards really connecting the dots. We all acknowledge that housing, that how we finance or construct and advocating for it is -- does not live isolation. It does not exist in isolation, and we're really trying to connect the dots between educational outcomes, health outcomes, sustainability goals, all of those things. And so we recognize that the decisions we make and the policy framework do not live in isolation.

We do have a number of tools in place that begin to move us in the direction of incentivizing or regulating towards ensuring that the right conditions are literally on the ground in local government. And one of those that Lisa hears me talk about a lot is we have had on the books for a number of years now, through our housing element law, a requirement that local governments identify a sites inventory, and there's a requirement for them to demonstrate the ability to meet their RHNA goals through housing on a number of sites that they have identified and zoned for or made ministerial in terms of the entitlements on those sites. I think there's another step that we can take in order to really incentivize the use of the sites in a productive way, but we have -- local governments have gone through an exercise that does precisely what the Secretary is talking about, which is do the zoning, make it ministerial, set the foundation in place so that we have the ability to move forward on sites.

Then the question really becomes how do you -- these are existing uses and these are, you know, difficult-to-develop sites. These sites that have infrastructure deficiencies, you name it, the number of challenges that you may encounter on these sites, but the reality is if we can move in a direction of creating policies that really support the utilization of the sites that the locals have already identified, you know, from a local discretionary perspective, they've identified these as the sites that they want to put forth, then perhaps we can really begin to move in that direction.

MS. AVILA FARIAS: I just want to thank you for the presentation. This is a great overview of the state and what's happening for us at county levels. I apologize, I'm fighting bronchitis so sorry if I cough in between half breaths here.

But I agree with Secretary Caballero. I think the housing element, we just had in Contra Costa County and Alameda County a housing regional workshop. And, you know, a lot that's stepped up from these agencies were the fact that we have this housing element but yet there's no enforcement in production of what we say we're going do in those documents. And I think a first step in public policy is why create a document if there's no state enforcement and, you know, cities aren't creating their fair share, which is exasperating this regional problem and statewide problem with the lack of affordable housing.

Aside from the land use that we need to have done, the for-profit builders come in, you know, again with disregard to the housing element, and the policymakers brand these land uses for fair market rate housing. So I think there's a lot of policy work that needs to be done on enforcing that housing element and, as she stated, incentivizing for the municipalities the reason to build affordable housing and not just build fair market rate housing. So I definitely think this Board should have some leadership in that role as well, in trying to move that public policy.

ACTING CHAIRPERSON GUNNING: Tim.

MR. PRINCE: I'm sorry, one last -- a couple of last comments -- oh, I'm sorry.

MR. SCHAEFER: As most of you know, I'm not a housing expert. I'm a refugee from the private sector, having been an adviser to government for 40 years. This conversation from the director, the Secretary, resonates with me a great deal because I, over those 40 years, have stood in front of some planning commissions and city councils and listened to this dialogue.

And one of the things that I've discovered in those travels that is missing is something that our office recently did that I would encourage all of you to take a look at. It was a guest article written by a Southern California housing economist by the name of Joe

Janczyk. He talks about I -- and I will not do this justice, so it will be abundantly obvious to you that I'm not an economist when you hear me say this. He says that, in fact, folks who get set up in these situations, where they are commuters from Tracy to the Bay Area or from the Antelope Valley to the eastern end of the San Fernando Valley, are actually making an economic choice that's equivalent to taking a part-time job. I can live in the Antelope Valley and afford to put my family in this idealized single-family home if I'm willing to take on part-time employment, and that part-time employment is spending five hours a day in my automobile.

And his view is -- and again, I may not do this complete justice, but I would ask you to take look at this. You'll find it in the Treasurer's most recent online newsletter. His view is that until we break the back of that economic phenomenon, we won't really make any meaningful dent in all of this. It's not just a question of dealing with the incentives for the development community for local government officials, but also for the consumer that makes that choice to take on that part-time job, as he describes it.

I would just encourage everybody to take a look at it. It's thought provoking. Parts of it you may not agree with, and there are parts of it I don't necessarily agree with, but the point is to make it provoke thought and help us stimulate -- stimulating thought processes about how to make this better, given the leadership of HCD and this good work that's undergoing right now as well as the role that we play.

ACTING CHAIRPERSON GUNNING: Thank you, Tim.

MR. PRINCE: Yeah, and I think you raised a very good point, and I -- the whole issue of what the impact design has is so important, right? And there's a group in Vancouver, Canada, that's looking at the happiness factor that results from design, and they are actually able to talk about how many doors that lead into a shared area, right, that that leads to a different sense of community. And so it really should affect as we do density, how we can do density in a way that leads to the interactions that lead people to be happy and therefore maybe choose that over the two-and-a-half-hour commute to Antelope Valley. Because I think -- that was the first thing I was going to say, is design does matter, so I'm hoping this looks at the design factors.

I think you brought up something really important, which is wellness. I would love to figure out how do we connect housing with health clinics and things like that. You know, it's just the numbers are staggering of the number of kids who are not getting healthcare. You know, in Fresno 70 percent of the kids under the age of 12 have never been to a dentist. Not that they don't go twice a year, they never have been once. And so we've got to figure out ways to connect housing with the health, the lack of prenatal care for mothers, and the impact that's having on premature births in the Valley. I think also Oakland has really high numbers. So think that connection to wellness centers or wellness and think about clinics.

I love it that you're looking at land use. To me it's not very -- I don't know the right words. It's not very sexy, right? It's like -- but the reality is everything that's come out of land use decisions and poor land use decisions, have led to segregated neighborhoods and to unhealthy environments. So we've got to look at land use, so I'm glad that's at the top of what you're doing or it's on the list of priorities.

I know Tia whispered in my ear about some of the other maps that you have about the disparate impact on African American and Latino communities. There's a statistic in Fresno that's really frightening, is that if you are white and born in Fresno, you have an 80 percent chance of reaching the age of 60, but if you're colored and born in Fresno, you have a 60 percent chance of reaching the age of 60. I think housing can affect that. You have to think about land use and housing as creating these healthy places.

And so I think that's what you guys are doing. I don't think our numbers are probably that different from other places. The negative impact is happening on communities of color.

And then I also heard loud and clear the issue about different markets. Fresno and the Valley is not the -- is not Santa Clara or Santa Barbara, right? The policy issues that are confronted in those areas are different, but I do think that's just as important in the Valley, just as important on the Coast, so it's really understanding what those different issues are and thinking about what are the different tools that each needs.

I think we would love to have gentrification, right, in the Valley, but for us the bigger issue is how do we address the overwhelming concentration of poverty through housing, right, so -- which is different than trying to address affordability in Santa Barbara with half a percent vacancy rate, right?

So, again, I think that this is a great opportunity to look at the very complex -- we've used that word several times -- the complex issues of California and housing.

ACTING CHAIRPERSON GUNNING: Great comment, Preston.

Ms. Director.

MS. BOATMAN PATTERSON: This kind of conversation is exactly what I wanted to have HCD present, is that we've been having these conversations at staff. We've been looking at the data. We've been rolling it out, but we wanted to present you with it so you could start engaging and being a part of that. I have seen more collaboration between CalHFA, HCD, TCAC, CDLAC than I have seen in a number of years. And the Board may not realize this, but all of CalHFA's lending programs statutorily are to be consistent with the Statewide Housing Plan.

And so to make sure that the data that they have and that we are listening to that data and understanding how we make those investments and how those investments are impacting real people, I think that is so important, because we often just measure our performance by the number of units produced. But are we putting those units in the right places? Are we impacting the lives that we should be impacting?

When Lisa first presented the data on some of the impacts that our black and brown communities have in the state of California, I think Preston was right on when he started talking about affirmatively furthering fair housing because are we making investments that we're actually causing disparity in certain communities?

And we have not gone back and reviewed the data to know how we're investing our money, so I have to tell you, I don't think our Governor's interested in putting more money or resources into housing until we know how we're investing it now. And so there's research that needs to be done. There's data that needs to be gathered. And then there's analysis that needs to be made before we make a conclusion.

So we all know that we don't have enough resources. We all know that we need more resources, but the analysis that we need before we get to that conclusion has not been done. We are so busy chasing and chasing and chasing that we never go back and stop and review the data of our programs that have existed to see how well or how they didn't do well so that we can then go back and tell our story.

And so I'm very glad for Lisa to be here to be able to start sharing some of this and hope this is helpful, and I hope we continue to have this conversation.

MS. BATES: It's fantastic. Thank you.

ACTING CHAIRPERSON GUNNING: Great. Thank you, Lisa.

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Item 7. Update and discussion on the California Department of Housing and Community Development (HCD) Uniform Multifamily Regulations.

ACTING CHAIRPERSON GUNNING: Item No. 7, update and discussion on the multifamily regulations. Thanks, Laura.

MS. WHITTALL-SCHERFEE: Good morning. This will be quite a shift from the policy discussion.

We're now going to discuss the uniform multi-family regulations that are really the core of our underwriting guidelines at Housing and Community Development. The UMRs, as we refer to them, were adopted in 2003, and they were really designed to help determine what our underwriting parameters were going to be for the new, then, MHP program, the multi-family housing program.

But now we use the UMRs as our underwriting guidelines for most of our new programs. In fact, the veterans program and the Affordable Housing and Sustainable Communities program borrowed from the UMRs and supplemented with some changes that they really wanted to see in those programs that either were not addressed in the UMRs or needed to be changed in the

UMRs.

So about two years ago, we started a concerted outreach to try to come up with recommended changes. Because, as everybody is aware, there have been a lot of changes in the real estate industry and the underwriting, in particular multi-family programs and projects since 2003. The industry has changed greatly. And the programs that we administer using the UMRs have really grown and are much more diverse than what MHP was in 2003.

So during the last years, we have done a substantial amount of outreach. We have participated in probably ten workshops and conferences throughout the state. We've also been asked to speak individually to various groups and boards. And we also conducted a focus group in June of this year where we asked a cross-section of our stakeholders to give us some feedback on the UMRs.

And then last, but not least, about a month ago we conducted a cross-sister-agency discussion where we invited CalHFA, CDLAC and TCAC to come discuss with us what we were proposing to try to see if there were ways that we could be closer aligned to the parameters that TCAC was looking at, the changes TCAC was looking at. Also California Housing Finance Agency with the new loan programs, did our URM changes help or did our URM changes hinder, and how could we adjust those changes to be more -- more collaborative and more helpful in trying to achieve a broader state mission.

And those conversations were very, very helpful because they really helped us tweak some of the UMR changes that we were looking at. We had a lot of discussion amongst the four agencies with regard to what our goals are, what our mission is, what our purpose is, both separately and together, so it was a very, very positive collaborative discussion.

So one of the realities that HCD faces is that we typically award funds through a NOFA process, through the Notice of Funding Availability. It's a competitive process, and it is with -- almost without exception oversubscribed. We generally are oversubscribed at least two to one with every round of funding that we have.

The veterans was probably the exception to the rule, but that is also because we see sometimes with the first round of a new program, that we are not fully subscribed. But we expect that the second round will definitely be oversubscribed.

HCD wants to encourage affordable housing. And over the years our funds have gone towards really deepening the affordability in the projects that we fund, and these are all things that we need to keep in mind when we are looking at our UMR revisions.

I didn't want to go through every UMR revision that we're thinking of making because this would literally take hours, and we don't want to waste your time, but I do want to touch on some of the more -- they're not more important, but they were the proposals that we think are going to generate the most input and the most feedback. What we're doing is we intend to propose our changes based on what we truly think would be in the best interests of both HCD's programs and the state programs as a whole.

One of the changes we want to make is currently we have limitations on the cash flow that's allowed when you underwrite. There are three limitations that are currently allowed, one being the first year you can't have more than 10 percent -- you're limited to 12 percent of operating expenses, or you're limited to the amount that's necessary for the loan to pencil for 15 years, or you're limited to a 1.2 debt service coverage ratio. And these limitations were based largely on the premise that we were funding projects that were 40 percent AMI, 50 percent AMI. This really predates a lot of the special needs/chronic homeless focus that has now become part of HCD's lending programs.

So we're proposing to change those limitations. We're proposing to allow the debt service coverage ratio to drop below 110 when there's an operating subsidy. We are proposing to allow the cap to be exceeded -- and this is the 12 percent operating expense amount -- if it's necessary to pencil -- for the project to pencil out for 20 years.

And we're also looking at changing the UMRs so that we can sweep excess cash if needed and that's the way to satisfy the 1.2 debt service coverage ratio. What we're trying to do is allow projects to have debt coverage ratios that are more flexible and take into account what type of tenant that you're trying to serve, especially as we focus on trying to eliminate homelessness and try to help chronic special needs populations.

The other issue that we know will be very, very -- we'll have a lot of feedback on is the issue revolving around senior balloon loan payments. We've heard from endless number of stakeholders that balloon loans, especially in large urban communities, are very, very important, that this is how the industry underwrites. One of our concerns is that right now we are at an all-time low interest rate level and that interest rates are expected to increase.

The other concern we have is we are typically a residual receipt lender. We are not a first lien lender. So we put our money in knowing that we are serving populations, but that by and large we're not basing it on a loan to value ratio. There's no expectation that we're going to be repaid just out of the general debt that encumbers the property. So we've been asked to consider allowing balloon loans on projects where there is HCD funding. And we have struggled to receive from anybody how we should evaluate whether or not those balloon loans make sense from a residual receipt lender who's trying to keep projects very, very affordable.

So what we've come up with is -- are basically two proposals. One is to do what a lot of other states currently do, which is to agree to a balloon loan if HCD's regulatory agreement would be recorded senior to the senior loan documents, only the regulatory agreement, not the deed of trust. And the other is to agree to a balloon loan if the borrower is refinancing on a project that already has HCD funding and HCD is not putting new loan money in. If we are contributing no new money to a deal and our -- the only thing we are doing is rolling over our loan, we would allow a senior loan. We would also look to the senior lender in those situations for doing a lot of the basic underwriting to make sure that the balloon loan makes sense.

But one of our concerns is that while a lot of senior lenders look to a repayment of their loan, we also look to making sure that there is sufficient money to rehabilitate the project in year 15. And we want to make sure that that doesn't get overlooked when you're considering a balloon loan in a rising interest rate market.

Another issue that has been a very lively one in our discussions revolves around the developer fee. And this was where the conversation with TCAC, CDLAC, and CalHFA was very, very helpful. Right now HCD limits developer fee. And I've heard from participating on the CalHFA and from stakeholders that their concern is our developer fee limit of 1.2 million as too limiting. So we recognize that, and we are proposing to increase the amount of our developer fee to what TCAC allows for in nine percent deals. That's currently 1.4 million, but I believe it's going up.

The other thing that we're agreeing to allow is on four percent deals, we are proposing to allow the addition of any deferred developer fee and basis. And this is to try to align ourselves more closely with what

TCAC is proposing.

There has also been a lot of concern with regard to the asset management fee limit.

And I think, Preston, this might resonate with your more rural community.

Right now the asset management fee is limited to $12,000 a year. Back in 2003, that was the amount set then, and there was absolutely no allowance for any increase. There was no CPI index increase. It was just set at a flat 12,000, so it's been $12,000 a year since 2003. The only exception was if a local funder had a policy that specifically was spelled out in the approved resolution and allowed a higher amount. We've typically seen this in San Francisco. San Francisco will allow $50,000 a year for an asset management fee. But it has really limited other communities.

We understand that that is not enough. We want to standardize the limit throughout the state and increase the amount that is allowed in the UMRs to $30,000. There was a lot of discussion in our stakeholder groups regarding, you know, whether we should allow specific amounts for four or five different set fees, and we just decided in the end that we don't want to get involved in setting set amounts, you know, for developers and equity investors and banks to agree to. We just want to have a bulk number and then allow the people that should be making those decisions to make the decisions on their own on that specific project.

We're also considering allowing some accrual. We haven't really set whether that would be a two to three year accrual or maybe up to five years of accrual, but we've heard people tell us that accrual is very important because it gives them the incentive to try to improve year after year.

We've also had a lot of input regarding supportive service costs. Right now our service coordination is allowed as an operating express, but other similar service-related costs are only payable out of sponsor distributions, so they're only allowed below the line. Since more and more of our programs focus on helping the chronic homeless and special needs populations, that seems short-sighted in 2015.

So what we are proposing is that we increase the amount substantially for programs that are trying to help chronic homeless and that are supportive housing programs and broaden the eligible cost categories. We are trying to set base limits more and on a per unit basis as opposed to a per project basis. This was one of the more recent comments that we received and that was that looking at something just on a project basis was not enough. We needed to see how many units within that project need the services that we are being asked to allow.

And then we also are going to add an index for inflation. That is one of the easy lessons learned from the original UMRs, that you need to always allow for inflation.

The other thing that we intend to do is to revise these UMRs and revisit them every five years, at least, not wait for 12 years to pass before we proceed with the next UMR revisions.

We also are looking at borrower organizational structures. Over the years, we've heard frequently that our limit to allow a structure to be limited to three layers before you get to the sponsor is a problem. And now we understand that with some of the IRS rulings and some of the ways the equity investors are structuring deals, that really four layers is the current standard. And so to facilitate those discussions, we are recommending that we allow four layers, not three. And we're hoping that that is really going to help reduce the conversations that happen around the permanent close with how the organization is structured.

The other area that we are borrowing heavily from TCAC on is our LP, limited partner, exit transactions. Right now the equity investor agreements often include a demand to use reserves to pay for exit costs. And one of the things that we are considering is requiring that there be a purchase option that includes cash assets in the purchase price and that reduces the potential for other exit costs.

Right now we see a lot of borrowers as we get close to year 15, because of the way our current structure exists, they come in, and they want to spend money to do rehab, but it's not necessary rehab because they want to save that for when they restructure the deal down the road. So they come in, and they do a lot of superficial rehab, saving the more extensive rehab like systems and -- largely systems like HVAC systems or re-doing parking lots or really going in and doing a lot of new units or cabinets and things like that.

And what we want to do is we really want to see that money stay in the deal. We want to see that money belong to the project, not to the investor because there needs to be the incentive to have the rehab be done when it should be done and not have it just be money that needs to be spent at the exit of the deal. So we are looking very much to what TCAC has proposed, and we are coordinating with them and talking to them about how we can work our limits to work well with their limits.

Replacement reserves have also been a big issue. Right now we have a $600 a unit replacement reserve. And we have a lower plug number for rehab, but what would happen is we could come in, do the underwriting, and then when the deal needed to close, the physical needs assessment would show a much higher rehab need, and then all of a sudden we would increase the reserves, and it would cause a lot of problems towards the end of the -- towards conversion to perm.

So we're proposing to keep the $600 for new construction, but we've also heard some conversation on that, so we're open to discussion. I know CalHFA has a $500 limit, and the last two deals that were presented to the board for approval did have $500. Those were rehab deals. They were not new construction. But we're finding that we do have requirements that are very similar to CalHFA on the replacement reserves.

For rehabs we would use a similar number as our plug number for new construction because, as I just said, the two deals that came to CalHFA were at $500. So since we agree with the same premise, that the physical needs assessment should direct what the reserves should be and should go into the calculation of how to formulate those reserves, we think that we will end up very, very close to what CalHFA agrees to use if not the same.

And then there are scattered site projects. We have struggled with the scattered site project issue, as I know HUD has also struggled with trying to work with scattered sites. So our proposal is to use a process very similar to what was adopted with AB 1699, but we want to give us some more flexibility than we provided in AB 1699.

We do want to see a single owner and a single property manager. We want to see one senior hard debt lender, and we would like to see a single audit and annual report covering all the sites. HCD needs to be secured against all the sites, but not necessarily in the lien position that we were on the couple of sites that maybe are part of this larger scattered site project. And we must be named on the insurance for all of the sites.

Our purpose behind the scattered site UMR proposal is that we want to encourage scattered sites. We want to encourage equity investors to get involved in small projects that might not otherwise have equity investors interested in them. But we also recognize that the real benefit to these scattered sites comes from having the single audit, having these sites be run as a single project as opposed to them needing four or five separate audits, four or five property managers, and different lenders on every site. That, to us, takes away the efficiencies and the economies of scale that are supposed to be inherent in the whole scattered site concept.

And those are the major changes. There are a lot of other changes, and I'd be happy to hear from any of you if you have specific issues that you didn't hear me talk about today that you think are largely necessary in the UMRs.

One of the goals we do have is that we don't want to include new regulations in UMRs. We want to use this as an opportunity to improve the UMRs. The UMRs we hope to have out for public comment in January. That will be a 45-day public comment. We're optimistic that because we've done so much foot work that there will only need to be hopefully one 45-day public comment period followed by a 15-day for minor changes and recommendations. However, if we do get a lot of feedback and that feedback results in major changes, that could lead to more 45-day comment periods.

Our goal is to go out to the public for their feedback after we go through our internal process in mid-January with the hope that we could have these ready to roll out in final form and be adopted and used at HCD by July 1st of 2016. It's been two years. It's been over two years. So it's -- we understand it's long overdue, but there's been a lot of thought and planning that's been going into this. And hopefully this will set the stage so that next time we do this -- five years from now when we're reviewing the changes that need to be made, it will be a much faster, more expeditious process.

ACTING CHAIRPERSON GUNNING: Okay, thanks, Laura.

Comments? Questions?

All right, thank you.

MR. PRINCE: I have one, I'm sorry.

There's lots of things you raised I think are totally fascinating. The one that I'm probably the most fixated on is the debt service coverage issues. And so I'm a proponent of higher debt coverage ratios, right? Because if you actually look at when we do our analysis and we say income is going to go up by X percent and expenses are going to go up by something, then it always, like, goes negative at some point, right?

And when you look historically at it, I think that we underestimate -- we underestimate the increase in costs, and we overestimate the increase in income. And so I think it kind of flips earlier. And so to me the debt coverage ratio is the one place where an owner can make sure that they're, you know -- if they're not -- we underwrite to that very low debt coverage ratio, we maximize the debt, I think what happens is it puts properties at jeopardy earlier. So I just think look at the debt coverage ratios. It's important. What I think I heard you kind of say on the special needs, if I heard it right, is that you can go to a lower level if there's operating dollars or something?

MS. WHITTALL-SCHERFEE: If there's operating subsidy. We're proposing a 110 if there's an operating subsidy. So what would be your feedback for --

MR. PRINCE: Yes, so in the 24 tax credit builds that we've done in Fresno since I've been there -- I think it's 24 -- we have permanent debt on two, maybe three. So I think debt coverage ratios, you know, I think if we're really going to serve our properties and make sure that they are going to be affordable for the longest period of time, that we should have no hard debt. And then if we are going to have hard debt, our debt coverage ratios need to go higher. I would do 1.25, if not higher, to make sure that we don't have a property in jeopardy in a shorter period of time.

I think that that really holds true to four percent rehab deals, which -- and I meant to bring this up with Mark. The only one tax credit deal that's suffering in Fresno in our portfolio was a four percent deal done before I got there. But four percent deals, I think, they historically -- and I'd love to hear what investors are saying because when they look at investing in rehab four percent deals, I think that they struggle with it, right? It not their highest priority. I think it's because they go negative way early, much earlier than expected.

So I just think that it's one of those -- it's an item I would look really hard at. And you have historical data, right? I would look at what's happening with real properties, whether income is really going up, whether expenses are really going up and have a historical look at how do we make sure properties sustain themselves for a long period of time.

MS. WHITTALL-SCHERFEE: I think one of the feedback comments that we received was that people did not want us to limit the penciling of the deal to 15 years, which was historically what we did as part of the earlier UMRs. They wanted to go out 20 years. So that was coupled with the 1.2, where we were headed. But we will take a look at your comment about the 1.25.

And I would encourage all of you who are interested to give us feedback and comments when we do go out for public comment period.

ACTING CHAIRPERSON GUNNING: All right. Thank you, Laura.

Why don't we take a five-minute break.

(Recess taken.)

ACTING CHAIRPERSON GUNNING: All right. Can we get going.

Before we get going, we do want to acknowledge that AnaMarie has joined us.

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Item 2. Approval of the minutes of the September 10, 2015 Board of Directors meeting.

ACTING CHAIRPERSON GUNNING: And I think we have one vote on the minutes, JoJo, so if we could wrap that up. So it's open roll to approve the minutes.

MS. OJIMA: Approval of the minutes.

MS. AVILA FARIAS: Approve.

MS. OJIMA: Thank you very much.

The minutes have been approved. Thank you.

ACTING CHAIRPERSON GUNNING: All right. Thanks, JoJo.

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Item 8. Overview and discussion on underwriting and sources of financing Multifamily Projects.

ACTING CHAIRPERSON GUNNING: Okay. Item No. 8.

Tony, Jim.

MR. SERTICH: Good morning, Board.

ACTING CHAIRPERSON GUNNING: It's almost afternoon.

MR. SERTICH: I know. I looked at the clock to make sure.

ACTING CHAIRPERSON GUNNING: Okay.

MR. SERTICH: Now that you've heard from our state housing partners on what they have been working on, we wanted to give you an update on what we have been doing on the multifamily side since I've come over to this side about six months ago, and a lot of it was done before that. I'm going to continue the roller coaster a little bit, starting high level and diving into a few things a little deeper.

So first of all, I want to thank Jim Morgan, the chief of multi-family lending; Chris Penny, chief of asset management; and all of their staff for being very helpful in getting me up to speed on our multi-family programs and being very willing to make changes that I've tried to since I've come on. And as we go through this, please feel free to ask any questions.

So what I really wanted to do was go over the high level goals of our multi-family group and then some of the things that we've seen over the last few months and then dive down and do a case study on a project that closed last month and how some of the other changes and issues that we've been dealing with have come to fruition on that deal.

First, I wanted to talk to our general multi-family goals. So the large goal is to increase the availability of affordable rental housing throughout California. There's four main tools we have to do this currently. One is financing preservation of affordable housing, affordable rental housing. The second main tool that we use is to provide very high quality asset management services to ensure a safe and decent housing environment on our projects. Third, we want to continue our strong underwriting and efficient loan processing to preserve CalHFA's financial strength once we make the loans. And fourth, and I think it's become very important lately, is partnering with other housing entities, whether it be state, local, federal, or private entities, to best utilize our resources, housing resources, across the state.

CalHFA is in a unique position because we're the State's housing lender. We -- while we get involved in policy, we're not really on the front end of the policy and our -- what we find is that our main competition is going to be commercial banks. Because we don't drive the policy, we're just doing the lending, the banks have a few advantages over us. They're funded with deposits, and they also have CRA requirements which allow them -- or force them to invest in community, which is a good thing for the policy side, but generally they're much more short-term focused. They like doing the short-term loans. They don't always like doing the permanent lending, which we enjoy doing. That's our bread and butter.

However, in the past few years it's been a very weak tax-exempt bond market, which is how we get our funds to lend out. There's sort of two factors to that. One is the general municipal bond market has been very difficult over the last seven or eight years, since the 2008 crisis. And second, with low interest rates, the tax exemption that we rely on has no real value in the marketplace.

However, we do think we do have several advantages that we are trying to maximize. We are mission driven, housing focused, which really -- we have a clear mission. We have a clear focus. We don't get distracted by nonhousing items that may come up at banks or other private entities.

Our governmental partnerships that we've developed at all levels are really focused on trust, and we've seen that we're trusted by HUD. We're trusted by U.S. Treasury. We're trusted by local housing entities. And we're trying to build on that trust and build those relationships.

We do have a statewide focus. A lot of the banks are focused regionally for CRA purposes because they're local banks. We'll do deals in Fresno. We'll do deals in Los Angeles. We'll do deals in Arcata. We'll do deals all across the state.

The other advantage that we're -- that we have is we do have a pot of subsidy funds that's allocated solely for affordable housing. That gets back to the subsidy fund policy we provided at the last meeting.

However, that's being mitigated to some extent by the banks also investing more in affordable housing with their Department of Justice settlement funds that they have had to provide. The lot of the large banks have large settlements that they have to reinvest in the community due to the foreclosure crisis, and so they're using that and reinvesting in housing, which is a good thing.

As part of this process to determine where our -- what improvements we can make to be more competitive in the environment, we engaged Sean Spear of 1410 Partners to do a process review, review our processes, policies, procedures, and see where we can improve.

Four main recommended improvements: The creation of a credit officer position, which we're working on recruiting for and identifying the correct scope for that position; to create formal cross-divisional loan review teams, which would include our finance, legal, asset management, multi-family, and accounting groups all being on these teams from the beginning of the loan process through the end; more formal communication with borrowers -- that means more documented communication, letters of intent, more clearly documenting our loan terms, our program requirements; along the same lines is better internal documentation of any exceptions we make to our loan program requirements and better documenting loan details so we can pass that between divisions easier.

These are recommendations. We've already implemented some of them, and we will continue to implement the rest, and we expect to have them more fully implemented by July 1st.

Along with these -- this review, Enterprise and Sean had nine training sessions on different parts of the multi-family underwriting process, and I think that staff really appreciated that and gained a lot from those sessions. And at those training sessions was more than just multi-family lending staff. We had legal, finance, asset management staff in there as well to learn more about the process.

Now diving a little deeper into some of these issues that we know have concerned -- have concerned not only the Board, but, you know, we heard Mark talk about it. We've heard HCD talk about it. One is the equity out on refinance issues. We had a large -- we had a loan come through at the last Board meeting that had a lot of -- that was looking to take a lot of equity out of the project. We're continuing to work with CDLAC, TCAC, HCD, and local agencies as well as developers to figure out if we can figure out a way to keep more housing assets in affordable housing. What we have found is a lot of these deals that are taking out significant chunks of equities have Section 8 HAP contracts on the project, and that's what's generating much of the equity on the deals.

Following up -- I know Janet was getting at some of these questions earlier, and I appreciate the dialogue -- the issue we have on subsidy funds policy is really we want to make sure we encourage as much creation of affordable housing as possible, but at the same time we need to make sure we efficiently use the scarce resources we have. Now, this not a CalHFA-only problem. It's a local problem. It's a -- other state agencies have the same problem. So we're trying to find the best balance, and we're willing to tweak that over time as necessary.

Right now our policy provides us the flexibility to provide exceptions as necessary. And as we get through the case study, which I'm getting into next, you can see we did make an exception on that.

So just last month, we closed a loan, a preservation project, on a deal that we have been trying to get closed for over two years. This was a very challenging deal because there was a complex structure. There was a lot of different debt on the deal. It was a senior housing project in a high-cost area. And the good thing is the buyer was able to work with the local housing authority to get project-based Section 8 vouchers added to the deal. The -- it was a portfolio deal of ours, and so we wanted to step up and help make this deal work.

We were able to provide a 40-year fully amortizing loan, which is not often found in the marketplace. We waived nearly half of the yield maintenance payment that we normally require. We also provided a $2 million residual receipts loan at a very low interest rate. And as part of this, we -- ultimately there was no deferred developer fee attached to this subsidy.

We also were able to work with governmental partners at all levels. We worked with HUD, which was a process, to get an age waiver because -- to tie the Section 8 with the risk share that we have, we needed an age waiver from them. We worked with CDLAC to get an issuance extension on the project and -- due to the timing of the age waiver -- and we also were able to work with the local entities who had money in the deal to work on subordination and timing issues.

However, we did learn some lessons from the project. The developer was not always on the same page as we were about how the deal should go, so we had some difficulties there. So part of what we learned there from this project is that we need to communicate more clearly up-front on the loan terms and the program requirements. That ties back to some of Sean's findings about clear documentation and clear communication with forms.

We need to make sure that we address all issues that could come up with the project before we commit to deadlines. That includes HUD issues. That includes local issues. Make sure those are ironed out or have a very clear path to solve those problems before we commit to any funding deadlines.

Along those same lines, we need to make sure that we get sign-off from the borrower on different issues before we move forward, assuming that they will sign off on those issues.

And, you know, we need to make sure that all parties agree on time lines going forward.

And finally, this was a key point to our -- to ask on the subsidy policy for deferring developer fees, when we did ask -- there was a shortfall of several hundred thousand dollars on this deal. When we asked the developer to defer some of their fees, suddenly some cost savings were discovered so we didn't have to defer those fees and that's why --

MR. PRINCE: How did that happen?

MR. SERTICH: The reason we asked them to put some skin in the game is to make sure that we have a very efficient project and the cost savings are there.

So I just wanted to bring that up, let you know what we're working on, some of these issues that we found on a difficult project.

If anyone has any questions, Jim and I are both here to answer questions.

ACTING CHAIRPERSON GUNNING: Awesome. Thanks, Tony.

Questions from the Board?

MR. PRINCE: I have tons, but I'll defer.

I think this is great. Thank you. So I think learning lessons from the past is fantastic, so keep doing that. And if it helps you guys do it better, then we do our jobs better, so thank you for doing that.

I think the commitment to preservation is really a tough issue for me. And I really go back to if something wasn't really designed well to start with, which, you know -- really in the 50s, 60s, and 70s we did some really poorly designed developments. And so by preserving them, we're not necessarily creating those environments for like the healthiest and most vibrant kind of social interactions and outcomes. And so -- and I struggle with this in Fresno as we look at preserving our public housing. And we've done both the tear down and new construction, and we've done renovation of properties. And even though the tearing down and building new is more expensive and requires more subsidy, I think it has better outcomes. And so that's why, again, I would love for as you guys look at it is to be able to quantify it.

In Glasgow they -- in Scotland, they're looking at the impact, the social impacts, from reinvestment within and preserving of social housing, so I think that there are examples out there. I bet you Carol Galante is doing those things at Berkeley now, right?

So I just think as we look at the policies, it's based upon we have this desire to keep the affordable units there, but maybe tearing down and building new or something like that actually has the better outcomes in terms of the interactions and the right space for community activities to be happening and things like that. So I just -- that was probably my biggest thing.

I thought market conditions -- I'm sorry, last one. Because I don't remember this one coming to us, but other ones, there's one in San Diego, I think, that we looked at. And we had that strong or long conversation about the developer fee and how much did they get or pulling sale proceeds out of the transaction. I mean, they could have just sold the property and realized a pretty big windfall. And so I would hate for us to be pushing people into that area where they're going to have to sell the property to get what the market would generate for them. So somehow we have to balance, like, limiting what they can do out of altruistic reasons or something like that with what the market would allow them to do.

So I think it's a very interesting kind of conversation or tension that's there about how do you preserve the -- or protect the public investment and not have people pull out cash. And I probably would argue that I would let nonprofits and housing authorities do it because at least we have to put it back into the communities, but that's just my -- it's just jealousy that I'm not one of them.

MR. SERTICH: And that's something that, you know, is -- I don't think CalHFA on the equity out issue can take a stand on that in any way. It's really going to have to be a statewide TCAC, CDLAC, HCD joint effort in order to get something done. Because, as you said, these deals could be sold, and others can come in and do the financing as well. We have a very small part.

ACTING CHAIRPERSON GUNNING: Janet.

MS. FALK: Yeah. I think this is great. Anything that you can do to make it a better process and streamline it is all things that we should be doing.

My comments actually have more to do with going forward, which is that, you know, I think that we're at a bigger disadvantage against the commercial banks that you presented here, and one of the things that they do is they do other types of projects. They do construction loans. They do the take-out loans. They are doing the tax credits. So that's a big advantage for a lot of developers, to go one place and they don't have to deal with, you know, a lot of -- another agency. And I know that most of what we're doing at this point or a lot of multi-family is preservation loans, so existing projects.

But I'd like to see us going forward to really expand what you do with multi-family, and that means, you know, getting up to another, well, level of scale that we've -- because we're doing really a few loans a year. The Agency used to do a lot. And one way that it did it was to serve the needs that the other lenders aren't serving. So I would like as we do our plan -- and this is really kind of to Tia. As we do our planning going forward and our planning session, whenever we have that, the business plan, that we start looking at where could we expand lending activity, you know. And to some extent the best people to find that out from are your stakeholders out there who are developing affordable housing. What do they need that they can't get?

MR. SERTICH: And that's why we're going to focus a little on our advantages as well and --

MS. FALK: Right.

MR. SERTICH: -- make sure that we target that. I think, you know, one thing that we've looked at is more rural housing, smaller projects, smaller --

MS. FALK: Right, exactly. And that was often, you know, in the past where CalHFA had its advantage, was that when you needed a small mortgage -- you couldn't do a bond issue for a million dollars -- the Agency could do it and nobody else could. I'm not really quite sure where your advantages are today, but, you know, the borrowers, potential borrowers, could tell you what they need, and I would encourage some kind of process to meet with people and find out what are they lacking in the marketplace.

I know one thing that I have indicated for years and we're sort of doing it is to have small rehab loans available, not -- I mean rehab, not loans so much, but subsidy. Because you can't get -- if you need to fuel a project for $2 million, you know, $2 million of rehab need, that's not enough to syndicate.

MR. SERTICH: Yeah.

MS. FALK: And there's no program around.

MR. SERTICH: And our new program, refinance program, that's --

MS. FALK: There's nothing around really that does. That's one, just for example. There may be many others, so I would just encourage us going forward to start looking at ways that we could really expand.

MR. SERTICH: And that's also why we're trying to work with the Treasurer's Office, U.S. Treasury, and see if there's different ways we can collaborate to better utilize the resources that may be out there.

MS. FALK: Go for it.

MR. SERTICH: Thank you, Janet.

MR. SCHAEFER: If I may, thank you. Well done. It's clear that you've given it a lot of thought, and I thank you for that.

One of the things -- I want to make sure that I put this disclaimer on this. I don't want to come across as micromanaging, but I do want to make this observation. I'm going go back to a comment I made a few items ago describing a refugee from the private sector and local government finance.

Tim Hsu may die when he hears me say this, but I would encourage -- I would encourage each of you to reject the idea that the tax-exempt bond market may ever look again like it did in the past.

Secondly, one of the things that I think we've all learned about the fixed income market, especially for this kind of financing, is that there's a brave new world out there in taxable finance that we shouldn't reject out of hand concluding that it's not economical, because if, in fact, the spreads are what they are, tax exempt to treasury baselines and taxable -- taxable -- public sector securities can be sold at rates clearly that are not the same but are nonetheless very competitive. It may warrant some further examination, because it's clear that the life companies continue to play very actively in that. And what they appear to be seeking to do is to acquire long-term fixed-rate taxable securities where there is low correlation to other events. And this might in fact turn out to be one of those. Just a thought for your consideration.

And the last point I would make is -- I think I've shared this with the executive director, and you and I, Tony, have talked about this -- the Treasurer's Office operates a plus or minus $70 billion investment portfolio. And within that $70 billion debt portfolio -- or investment portfolio, rather, there is a program that's been around since the middle 1950s where the Treasurer can make direct placements of state funds with local banks, talking about smaller lenders. And that, of course, is the happy hunting grounds for smaller lenders because the community banks don't have the bandwidth to step up to the very large projects. They also have CRA requirements.

One of our criteria when we're doing business with those smaller banks is that they obtain and maintain CRA satisfactory or better, so we're chronically being asked to help some of these smaller fry access this part of the market, and, indeed, some of them will go long. It's not the normal "ten years and I turn pale" kind of environment that you encounter with the large guys. So I would encourage us to have some further conversations on that.

Our office is engaged in a listening tour right now, which will commence next month, with the smaller banks to try and hear from them what they need. To Ms. Falk's point, if we understand what they need, what they might look at, there may be some synergies that will develop, and I will keep my radar turning for that, but just as a tip-off on the taxable market. I'm not one of those that presumes that if it can't be done tax exempt, it's fatal.

MR. SERTICH: We've definitely considered the fact that our whole financing structure needs to change.

MR. HSU: I didn't keel or fall over in the back row. I'm okay.

MR. PRINCE: But I think what you brought up is a really important issue. Again, last week when I was listening to Buzz speak with about 200 people in the room, he stopped his speech, and he said, "Anyone want to take a guess or make a prediction on what's happening in the tax-exempt market?" And 200 very smart people, no one stood up. And so I think that's what you're saying, is maybe it doesn't get back to what it used to be like. Who knows what's going to happen? And so I think it's a very valid point. You're actually sounding more like a houser than you're leading us to believe.

And the last thing you said I think is really interesting is the involvement of the community banks. So we've been trying really hard to get tax credit investors and syndicators to be talking with our community banks to get them to be part of the investment funds. It's been really difficult, but in my mind that's like the untapped partners that we need to be getting to, and so I love the idea that you're talking about. We do the same thing when we make deposits in those banks with the idea that we're able to develop that relationship, that they'll be making investments back to the tax credit deals, so I think it's a great idea.

The last thing I was going to bring up was the whole yield waiver that you talked about. I think that that probably -- is that the right term? So the yield maintenance waiver.

MR. SERTICH: Oh, yes.

MR. PRINCE: That probably is the -- and this also goes back to my days in Colorado, with Colorado HFA financed development, that as the borrower, that we are always kind of really bummed, upset, with the interest rates that we're paying. I think we have two California HFA financed developments in Fresno. The interest rates are I think north of nine percent. And so -- and as we look at trying to refinance them, it's really -- that yield maintenance, I don't quite understand what happened, what leads to all that. I'm sure it's some agreement that happens with the bond buyer borrower -- or the buyers many years ago, but that definitely is an issue of heartburn. So I'm glad you guys are looking at that. You're going to have to continue to think about how you address that.

MR. SERTICH: And that's been a large topic of discussion internally, one we're still working on.

ACTING CHAIRPERSON GUNNING: Awesome. Thanks Preston.

Thanks, you guys. I appreciate the comments.

MR. SERTICH: Thank you.

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Item 9. Reports.

ACTING CHAIRPERSON GUNNING: All right. The next section is the normal reports. Any comments from the Board members on reports?

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Item 11. Discussion of other Board matters.

ACTING CHAIRPERSON GUNNING: I guess we do have one speaker, Mr. David Madriz.

MR. MADRIZ: Yes.

ACTING CHAIRPERSON GUNNING: Would you care to come up?

MR. MADRIZ: Sure.

ACTING CHAIRPERSON GUNNING: You are talking on the Hardest Hit Funds, Keep Your Home California.

MR. MADRIZ: Yes, I am.

My name is David Madriz. I'm a housing counselor for California Housing Advocates. I've been a certified by NeighborWorks housing counselor since 2008, since the housing crisis bubble blew.

And I come to you here with great urgency because the Keep Your Home California Hardest Hit money, fund of money, was almost taken away from us by Congress a few months ago, two weeks ago actually, in the highway bill. And there's a deadline of December 2017 on the money going back to Congress. I'm happy to report that Florida Housing Finance Agency has implemented a new program called the Downpayment Assistance Program using Hardest Hit Funds for first-time home buyers to move into hardest hit foreclosure county areas.

Now, I talked with experts in California how can we get this same program that Florida has over here in California, and there's two barriers. One is the FHA no foreclosure three year policy, and number two is the credit lenders want 640s or higher credit rating.

We talked to lenders, and lenders said just give us a higher downpayment and that will alleviate the credit rating.

The second thing is FHA. FHA, that's where you come in. We need each and every one of you's help to contact FHA and ask them to make an exception on the foreclosure victims of California that no one has helped since 2007, 2008, since today. They don't qualify for making homes affordable, home affordable modification. They don't qualify for the current programs that Keep Your Home California offers.

The programs we see now we're concerned that $150,000 goes to the lenders, and the borrower still maintains a home that's underwater. That has to stop.

This new program, if it's implemented in California, can give a fresh start, a second chance, to homebuyers to live their dream of owning a home.

We're so close of getting this red tape out of our way. We need your help. We need your help to cut the red tape that oversees us. And we're being told of the record by FHA employees all California has to do is ask and they'll consider removing that policy.

Another option that I sent an e-mail -- copied an e-mail that we sent to Ms. Patterson of CalHFA, Diane Richardson, CalHFA president, and it will hopefully get to the CalHFA MAC board to really come together. I want you each to review that e-mail because due to time constraints, the attorney put it all in that e-mail. And we believe that it's only common sense to help families get away from becoming homeless, and that's what's going on. And these homebuyers are the number one housing for homeless because they can't afford the rooms to rent, the apartments, they cannot afford.

So this is why I came here for, and I would hope to have any questions you have. The e-mail has my e-mail address, has the attorney, David L. Mandel's, e-mail address. And I hope we can work together with the CalHFA MAC Board to make this a reality. California needs it. The lender in Florida that has shown interest, I can provide the contacts. Let's make this happen for not only California homeless, California foreclosure victims, but California economy. This will be a great help.

There's still about half a billion dollars left over, and we're asking for 500 million to be given to this program. And the Hardest Hit funds throughout the state, there's still a hundred million dollars that might go back to Congress by the December 2017 deadline.

Thank you.

ACTING CHAIRPERSON GUNNING: Great. Thank you for those comments, David.

Di, you want to come up?

MS. BOATMAN PATTERSON: Di, can you tell the Board our most recent changes to the Keep Your Home California Program, how much we did last month and whether we're on target to spend every dime of that money by the December 2017 deadline.

MS. RICHARDSON: Sure. We are absolutely on target. I think we'll finish before December '17. We -- I'll tell you that right now, if you look at what's -- what we currently have reserved for the Unemployment Program, we exceed the allocation. We're going to be moving a little bit of money between programs here coming up to cover that.

The most recent change that we made was to the principal reduction program, and this was a very significant change. I think I have the gray hair to prove how difficult this lift was, but previously for the Principal Reduction Program, it was a program to help underwater borrowers, mainly underwater borrowers.

So if you were underwater, we could buy you down to 105 percent LTD. And for a long time, Treasury wasn't willing to go and be in a situation where we were creating equity for anyone.

So we still had a lot -- we were seeing a lot of homeowners that were coming in and they were having problems. They were equity positive but they had an unaffordable payment. So our only alternative at that point was if they were behind, we could do the reinstatement program, but we needed their bank to give them a modification to make the program -- to get them down to that affordable payment, which for us is 38 percent of their income.

And those were dying on the vine. 80, 90 maybe even 95 percent of those just we couldn't thread that needle. The banks just wouldn't do the modification. So we have a utility under our Principle Reduction Program, which is called -- we call it the PRPA for affordability. So now if someone comes in and they're equity positive but they have an unaffordable payment, we can buy their mortgage down to get them to that 38 percent. So again, that doesn't require the bank to modify anything. The bank takes the money and makes all the changes, but the homeowner then has an affordable payment.

So just to sort of compare, we still have our -- we still will help you if you have negative equity. Some people have negative equity but they have an affordable payment. So if their -- say their equity is at -- or their loan to value is 125 percent, but their payment is 34 percent of their income, if they come in, we can buy them down to 100 percent. They've got an affordable payment, so we can't go below a hundred percent.

If that person's payment, let say they came in at 125 percent and their payment was at -- their -- it was 42 percent, we would start buying them down. Say they hit 100 percent, say they're still -- say they're 42 percent, we hit a hundred, we buy it down further to the 38 percent.

So, you know, again, our biggest problem has always been when we try to do something in partnership with the banks and it requires them to take some kind of a step, it just doesn't happen. I'd love to say that, you know, we could create a program and it would incentivize the banks to do something, but we've just been proven time and time again that that's not going to happen.

So just this last month of October, we did $40 million in transactions. So we are, you know -- right now our PRPA is -- our principle reduction is the biggest pipeline that we've got. When borrowers come in and when they call, that's always the first thing we evaluate them for because that's going to give them the biggest bang. Obviously that's where we have the most to play with. It's a hundred thousand dollar cap, not 150, but it's a hundred thousand dollars, and so we'll try to use as much of that hundred thousand dollars to bring them to a hundred percent loan to value. And then if they still need additional help to get to an affordable payment, we'll buy them down to that 38 percent.

We're finding actually we have quite a few borrowers that we've helped, and we are getting them down below even the 25 percent LTV, which sounds kind of, you know, shocking at first, but we're getting them down to a 38 percent payment, which means -- you know, when we went back and looked at it, these were people that were extremely low income and just, you know, by having that affordability utility now made a huge difference in the program.

MS. BOATMAN PATTERSON: The changes Di has made to this program and that we've worked through since my first Board meeting when we actually were shut down by protesters are monumental. I can't stress enough that they are monumental. As a matter of fact, I believe four or five of the protesters that were there last September have all been helped now because of some of the modifications we have made to this program. So the fact that she did 40 million last year to help struggling homeowners --

MS. RICHARDSON: Not last year, last month.

MS. BOATMAN PATTERSON: Let me get that right -- 40 million last month to help struggling homeowners is just phenomenal. And like she said, we are on target to spend every dime of this money. We have no intention of sending Congress back their money.

So some of the things that we're working on now is actually working with U.S. Treasury to figure out program income and allowing us to keep program income so that we could address potential downpayment assistance for some of those borrowers that were hurt now trying to get back into homes. You will also remember last year we came in with some modifications to our downpayment assistance program, so we now have a downpayment assistance program that offers 5.3 percent.

We will continue to look at the Keep Your Home California program. We're constantly looking at the data and ways in which we can modify to help as many homeowners as we can.

As a matter of fact, Di, she's being very modest, but ### has recently approached us and asked us to come and help them. That is how strong California's Hardest Hit program is is that we've been recognized by the Treasury as doing a phenomenal job. ###, who has been struggling trying to get their money out, has now asked us, "Can you please come help us, and can we modify some of our program based on your programs?"

So I have to give a shout out to the Keep Your Home California staff and --

ACTING CHAIRPERSON GUNNING: Can we make money from ###?

MS. BOATMAN PATTERSON: We intend to. We will be charging them for our consultation services.

MS. RICHARDSON: At a recent meeting with all the Hardest Hit Fund states, you know, California, we've served about almost 60,000 families, which, you know, I think is pretty incredible. Obviously we know there's still a huge need out there, and, you know, we're working every day to figure out how to get that number raised higher. But at a recent meeting we had with all of the states, Treasury gave a shout out to all the states because they now have three states that have served at least 20,000 people. And I thought, oh, man, I would be looking for a job if that was us.

ACTING CHAIRPERSON GUNNING: Awesome. Thanks, Di. Appreciate it.

We've come to the final part of the meeting and if there's any other comments from the audience? None have signed up.

We've got a couple things left to do here. This is the part we don't really like, but we do it anyway, and that is to recognize leaving members of the family. And so I have here in my sweaty palms a resolution to Secretary Anna Caballero. And I'd read through all of it but we've heard of lot of words today, but I think the sentiment here is that we certainly appreciate you being on the Board and just going to miss you. We're just going to miss you. So we have it framed here. You can come see it here.

(Applause.)

MS. CABALLERO: Thank you.

ACTING CHAIRPERSON GUNNING: I said two items because there's one other item. And I think as most of you know, it's like a family around here. And I have to say that one of my sisters has been JoJo. And you may or may not know, but this is her last meeting. I can't tell you how many meetings. I can tell you that JoJo welcomed me here when I first came aboard, and she's been a friend and colleague to me, and I think as most of you have had contact with her appreciate her exuberance and enthusiasm.

And it is certainly going to be missed, JoJo. And we have a resolution here for you as well. Thank you for your service. We appreciate it.

(Applause.)

ACTING CHAIRPERSON GUNNING: Comment?

MS. OJIMA: It's been a pleasure. It's been an honor to serve you folks. You guys are a family. Thank you very much. I'm going to miss you all.

ACTING CHAIRPERSON GUNNING: Thank you, JoJo. Awesome.

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Item 12. Adjournment

ACTING CHAIRPERSON GUNNING: With that, we stand adjourned.

(The meeting concluded at 12:38 p.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 1st day of December 2015.

____

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