Thursday, May 11, 2006

Hilton Burbank Airport
& Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

9:30 a.m.

1. Roll Call.

2. Approval of the minutes of the March 9, 2006 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action relative to final loan commitment for the following project: (Laura Whittall-Scherfee)

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   Resolution 06-12

5. Update on Bay Area Housing Plan Financing. (Kathy Weremiuk/Edwin Gipson)

6. Discussion, recommendation and possible action relative to the adoption of a resolution approving the Five-Year Business Plan for fiscal years 2006/2007 to 2010/2011. (Jerry Smart; Greg Carter; Laura Whittall-Scherfee/Edwin Gipson; Bruce Gilbertson)

   Resolution 06-13

7. Discussion, recommendation and possible action relative to the adoption of a resolution approving the fiscal year 2006/2007 CalHFA Operating Budget. (Jackie Riley)

   Resolution 06-14

Bd.binder#140590
Bd.Mtg.:5-11-06
9. Discussion of other Board matters.

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

**NOTES**

HOTEL PARKING: Day Guest Parking Rate: Guests not registered with the hotel will receive discounted parking at $7.00 inclusive of tax, per car, with no in and out privileges.

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be July 6, 2006, at the Hyatt Regency Sacramento, Sacramento, California.
STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

--oOo--

BOARD OF DIRECTORS

PUBLIC MEETING

--oOo--

Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Thursday, March 9, 2006
9:32 a.m. to 12:32 p.m.

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

07/06/2006

Attest: [Signature]

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
8414 Yermo Way • Sacramento, CA 95828
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FeldhausDepo@aol.com
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

--oOo--

BOARD OF DIRECTORS
PUBLIC MEETING

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Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Thursday, March 9, 2006
9:32 a.m. to 12:32 p.m.

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Reported By: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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8414 Yermo Way, Sacramento, California 95828
(916) 682-9482 Fax (916) 688-0723
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Board of Directors Present

JACK SHINE  
(Acting Board Chair)  
Chairman  
American Beauty Development Co.

CURT AUGUSTINE  
for Sunne Wright McPeak  
Secretary  
Business, Transportation and Housing Agency  
State of California

JAN BOEL  
for Sean Walsh  
Director  
Office of Planning and Research  
State of California

CAROL GALANTE  
President  
BRIDGE Housing Corporation

JOHN G. MORRIS  
President  
John Morris, Inc.

JUDY NEVIS  
Acting Director  
Department of Housing and Community Development  
State of California

THERESA A. PARKER  
Executive Director  
California Housing Finance Agency  
State of California

WILLIAM J. PAVAO  
for Phillip Angelides  
State Treasurer  
State of California

--o0o--
Board of Directors Meeting held on March 9, 2006

APPEARANCES
Continued

CALHFA Legal Staff Present:

THOMAS C. HUGHES
General Counsel

JOJO OJIMA

---oOo---

For the Staff of the Agency:

GREG CARTER
Interim Director
Mortgage Insurance

BEVERLY FRETZ-BROWN
Interim Director
MultiFamily Programs

EVAN GERBERDING
Assistant Director
Marketing

KENNETH GIEBEL
Director
Marketing

BRUCE GILBERTSON
Director
Finance

EDWIN C. GIPSON II
Chief, MultiFamily Lending

MICHAEL HOWLAND
Director
Information Technology

TINA ILVONEN
MultiFamily Programs
Board of Directors Meeting held on March 9, 2006

APPEARANCES
Continued

For the Staff of the Agency:

JIM LISKA
MultiFamily Programs

CHRIS PENNY
Asset Management

KATHY WEREMIUK
Multifamily Loan Officer

LAURA WHITTALL-SCHERFEE
Chief of Lending
MultiFamily Programs

STEVE SPEARS

GERALD SMART
Chief
Homeownership Programs

--o0o--

Also Present

STANLEY J. DIRKS
Orrick Herrington & Sutcliffe, LLP

GARRETT BELL
Bank of America

MORGAN T. JONES III
McDonough, Holland & Allen, PC

GABRIEL D. SPEYER
Vice President
Community Development Lending
Bank of America

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BE IT REMEMBERED that on Thursday March 9, 2006, commencing at the hour of 9:32 a.m., at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

--oOo--

(The following proceedings commenced with Jan Boel absent from the hearing room.)

ACTING CHAIR SHINE: Well, it's time. Good morning. I would like to call the meeting to order. My name is Jack Shine. I am a fill-in. Our chairman had some business matters which made it impossible for him to be here this morning, and he asked me if I would fill in at this session, which I am doing here. So there you have it.

--oOo--

Item 1. Roll Call

ACTING CHAIR SHINE: Do we want to do a roll call first?

MS. OJIMA: Yes. Thank you.

Mr. Pavao for Mr. Angelides?

MR. PAVAO: Bill Pavao for Treasurer Angelides.

MS. OJIMA: Thank you.

Mr. Carey?

(No audible response)
MS. OJIMA: Mr. Czuker?
(No audible response)

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Here.

MS. OJIMA: Thank you.

Ms. Galante?

MS. GALANTE: Here.

MS. OJIMA: Mr. Augustine for Ms. McPeak?

MR. AUGUSTINE: Here.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Here.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Here.

MS. OJIMA: Mr. Courson?
(No audible response).

MS. OJIMA: Mr. Walsh?
(No audible response)

MS. OJIMA: Mr. Genest?
(No audible response)

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIR SHINE: By the skin of our teeth.

MS. OJIMA: By the skin of our teeth, correct.
Item 2. Approval of the minutes of January 12, 2006,

Board of Directors Meeting

ACTING CHAIR SHINE: Okay, we have minutes of
the January 12th meeting.

I will entertain a motion for approval and any
comments?

MR. MORRIS: So moved.

MS. NEVIS: Second.

ACTING CHAIR SHINE: Any comments from anybody?
(No audible response)

ACTING CHAIR SHINE: If not, all in favor?
(A chorus of "ayes" was heard.)

ACTING CHAIR SHINE: Then I'll go ahead and call
the roll, which -- now, do you see what happens to an
interim?

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Having not been at the meeting, I
was inclined to abstain.

Do you need a vote for the quorum? Then I vote
"aye."

MS. PARKER: Well, the only thing we could do is
move it over to the next Board meeting. But we need six
votes.

MR. PAVAO: Then I vote "aye."

MS. OJIMA: Thank you, Mr. Pavao.
Ms. Nevis?

MS. NEVIS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: The minutes have been approved.

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Item 3. Chairman/Executive Director comments

ACTING CHAIR SHINE: Okay, in that case, I would like to make comments. It says "Chairman and Executive Director." But as acting chairman, I have no comments to make. So, therefore, I will not make any.

But I'll turn it over to Terri, who I know has some things that you want to hear.

MS. PARKER: Thank you, Mr. Chairman.

And my grateful thanks to all the Board members who are here today.

If you were not here, we would have a serious problem of being able to do the business of the organization and meet our commitment to our borrowers.
I have a couple of announcements to make.

Certainly, I wanted to introduce Bill Pavao, who has taken Laurie Weir's place in representing the Treasurer. Bill has been known, I think, to many of us at CalHFA because of his long tenure in the Department of Housing and Community Development, where most recently he ran the Multifamily Housing Program. So we welcome Bill.

And we know you'll do a fine job, representing the Treasurer.

The other introduction that I want to make is, as you all know, I have chatted with you about some of the great loss to the Agency of our longtime staff. And with the retirement of Dick LaVergne, the retirement of Nancy Abreu, we have had challenges of filling our Director of Homeownership and with changes in the Multifamily area. So at least the first of those four positions we've made some progress on, and paperwork is in to the Governor's office to appoint Steve Spears.

Steve, if you would stand up, so you all know him.

Steve has an outstanding background to bring to the Housing and Finance Agency. He not only has an MBA in business and a CPA, but he also has a law degree. He was Deputy Treasurer for Matt Fong, and did the municipal finance side of the Treasurer's office. He's
well-known and respected on Wall Street, and has done
consulting in the financial area for the last several
years.

So we are very fortunate to have him. We're
teaching him how to be a "houser." But other than that,
he has a tremendous background to bring to the Agency.
So we're fortunate to have him; and you'll be hearing
more from him over the next months, if he is with the
Agency. And if I'm not available, Steve is the next
person for you all to contact.

John asked me, when he said he couldn't
attend this meeting, to do one thing, and that is to
make an announcement for him. At the last meeting, he
talked about his desire to form an audit committee.
And in doing so, he has talked to a couple of the Board
members to ask them to participate on that audit
committee. And he has asked Jack Shine to chair the
committee. He has asked Carol Galante and Peter Carey
to be members on the committee on a rotational basis, so
that we always, you know, are not in a situation where
we have all three members coming on and off at the same
time.

So Jack's appointment is for one year, Carol's
is for two years, and Peter's is for three years.

Since Jack has a dubious distinction of being
the first Chair of the audit committee, he will be
working with Tom Hughes, our General Counsel, and Dennis
Meidinger, our Comptroller, in developing an audit
committee plan -- a charter -- and will be coming back to
the Board members and talking a little bit about the
activities that they are going to be doing. So I just
wanted to give you kind of a heads-up on that.

We have a very good meeting to talk with you
about. A couple of deals for us to be doing. We're
going to be doing a report on the Bay Area Housing Plan.
A big part of our meeting is to talk with you about
concepts for our business plan, which we'll be bringing
back to you to adopt next May. But I think this is going
to be a crucial time for the way we are going to be
talking to you about the business plan of how we best
want to use our resources, how best we want to
essentially move the mission of the organization, and
also whether or not we will have the resources to do so.

As a little special treat, our Marketing folks
have done some PSAs on the Agency. So before, as an
introduction to our business plan, we're going to give
you a little bit of -- a couple 30-second PSAs about the
organization and the mission that we're doing.

And then last, but not least, we'll have a small
closed session to talk with you about some court
litigation that we're involved in.

    So we appreciate you being here, and we
    appreciate your time and attention to the matters before
    you today.

    With that, Mr. Chairman, that concludes my
    report.

    ACTING CHAIR SHINE: Thank you.

    ---o0o---

Item 4. Discussion, recommendation and possible action
    relative to final loan commitments for three
    projects:

    Resolution 06-09 (Indio Gardens Apartments)

    ACTING CHAIR SHINE: I'd like to just then go
    into the three projects that we have before us today, the
    first of which is Indio Gardens Apartments.

    MS. FRETZ-BROWN: Thank you, Chairman Shine.

    I'm Beverly Fretz-Brown, Interim Director of the
    Multifamily Housing Programs, CalHFA.

    Our first loan commitment request is Indio
    Gardens. It's a portfolio loan for the purpose of
    acquisition and rehab.

    Laura Whittall-Scherfee, the Chief of Lending,
    will be directing the remarks on this program.

    Thank you.

    MS. WHITTALL-SCHERFEE: Good morning.
This is a final commitment request for Indio Gardens Apartments. Indio Gardens Apartments is an Agency portfolio loan. It's a 151-unit family project. It's located in Indio, which is in Riverside County. The project was constructed in 1981. It is 100 percent Section 8. It has 100 percent Section 8 subsidy right now, and the renewals expired in 2002.

The request is for an acquisition rehabilitation loan, a Section 8 second mortgage, and then permanent loan financing.

The acquisition rehab loan is in the amount of $4,400,000, at a variable interest rate for 24 months; and the financing is tax-exempt.

The second mortgage, which will go into place at the same time as the acquisition rehabilitation loan, is for 4,800,000. It's comprised of $1,090,000 of earned surplus, and 3,710,000 of tax-exempt financing. It's for 16 years, which is the remaining term of the half, with the extensions.

The permanent loan is in the same amount as the acquisition loan. It's for $4,400,000, at 5.45 percent for 30 years.

There are no other sources of financing.

And with this, Jim Liska is going to explain the project in a little bit more detail.
This is very, very similar in structure to what you saw with Palm Springs Senior, at the last Board meeting. The ownership of the property is going to include Bental, and the actual name of the ownership entity is going to be "Indio Gardens Affordable LP."

Go ahead, Jim.

MR. LISKA: The project is Indio Gardens, located in Indio.

This is a close-up of the aerial. And it's a three-story elevator, two buildings: Building A and Building B.

Right here is the community room. And off to the right here is the office center. The community room will see some rehab, as far as updating.

The project was built in 1981. And overall, it's in our portfolio, and it is in pretty good condition; but we will be doing approximately 1.9 million dollars' worth of rehab. We're at 12,000-plus per unit.

The roofs are -- basically, they're a foam covering and reflective to help us with the sun, since it gets warm, as you know, down there during the summer months.

We understand the warranty is good through approximately 2012 on these roofs.
Back here, this is a senior project. We have a nice little garden plot where individual tenants can grow various flowers, vegetables, fruits, what have you.

On the back side are apartments. To the right are apartments. Across the street are, again, apartments.

It is gated with security gates and automatic openers.

I think this is one of the better projects I have seen as far as with ADA compliance, since we do have a lot of seniors, a lot of handicapped here.

Off to the left is a seven-acre date farm; and adjacent to that is open land.

This gives you a little bit wider aerial on it. We're looking west, down the street.

At the corner of Monroe and our street is a bus stop. About a quarter mile away in this direction (pointing), just past Highway 101 in Monroe, we have a little shopping center, as far as Rite Aid for drugs, Food 4 Less for our grocery, and approximately a mile away is the hospital.

So all in all, there, the services are all within about a half a mile distance of the project.

This is a view of the subject from Requa Avenue.

Just looking east on Requa.
Looking west on Requa.

This is an interior view of the grounds, property. The landscaping is very nicely done, well-maintained, well kept up. And we have a little bit of rehab to do, some ongoing work there.

A typical kitchen.

As far as interior unit amenities, we are going to be seeing new cabinets, new appliances. Flooring for both the bathrooms, carpeting, paint.

This is a typical unit interior.

We can digress a little bit on this one.

Again, those that were here in January for Palm Springs, we have our Section 8 exceeding the market rate. It's 862 versus 725.

Again, we have a 16-year half contract remaining. And in the cash flow for the first six years, two years' worth of rehab plus the first four years of amortizing, we have flatlined it. We have not trended those rents until -- for the Section 8 -- until such time as the market catches up with the Section 8, then we are permitted to go back to HUD to get our annual increases.

With that, I'm open for questions.

ACTING CHAIR SHINE: Questions from anybody?

MS. GALANTE: I have one.

I wasn't at the last meeting, so I didn't --
you're referring to a structure on a previous deal, and
I apologize. But is this project being acquired from an
existing?

MR. Liska: This project is being acquired
from --

Ms. Galante: This is not a refinancing?

Mr. Liska: No, it's not a refinancing. This is
an actual sale. And the current owner is selling it.

As part of that sale, since it is in our
portfolio, this property, based on yield maintenance,
the seller of the property will be paying a
1.6-some-odd million dollars prepayment penalty to us.

Ms. Galante: So is that the earned surplus?

What's the earned surplus?

Mr. Liska: The earned surplus is from our own
funds, and it's to supplement and use, since this is a
pre-80 project, the project can have surplus funds, in
addition to our own tax-exempt financing.

Acting Chair Shine: I have just a question
here.

In computing the first and the second, when you
add them together, it's $90.2 million.

Mr. Liska: That's correct.

Acting Chair Shine: So that's like an
80 percent loan based on value after completion; right?
MR. LISK: That's correct.

ACTING CHAIR SHINE: I just wanted to make sure it's still there.

MR. LISK: Yes, it's still there.

Again, the tax-exempt is a little bit less, 8.1 million. And then the $1,090,000 is the HAT earned surplus money, our own Agency's funds. And we have it at 5.45 percent interest rate for 16 years.

ACTING CHAIR SHINE: Okay, any further comments? Questions?

MR. MORRIS: If I can make one comment.

I think it's a great project. I mean, this area is one of the fastest growing cities in the state, and housing prices have increased dramatically in the last several years, just like other parts of the state. So this is good. This is a good project.

MR. LISK: You see the signs going down the freeway at the site. You're looking at three to five hundred thousand-dollar homes.

MR. MORRIS: Right.

MR. LISK: Your observation is right.

ACTING CHAIR SHINE: Okay, all right. Do we hear a motion?

MR. HUGHES: Mr. Chair, just to remind you, before the Board votes on anything, we do have to make
sure we've solicited any input or comments from the public.

ACTING CHAIR SHINE: Oh.

Comments from the public?

(No audible response)

ACTING CHAIR SHINE: Hearing none, I'd entertain a motion.

MR. MORRIS: I move.

MR. PAVAO: Second.

ACTING CHAIR SHINE: Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Aye.

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: Resolution 06-09 has been approved.

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Item 4. Discussion, recommendation and possible action relative to final loan commitments for three projects. (continued)

Resolution 06-10 (Seven Directions)

ACTING CHAIR SHINE: Okay, our next project is Seven Directions in Oakland, Alameda. Are you ready?

MS. FRETZ-BROWN: Thank you, Mr. Chairman. Laura will also give the comments on the Seven Directions project.

Thank you.

MS. WHITTALL-SCHERFEE: We are having to lean forward into this mike because this is as far as it's going to go. So if we look like we're practically trying to lean over the table, that is why.

Tina Ilvonen is going to help me with Seven Directions. You did receive very late, and I apologize, a substitute page. That substitute page includes the information on the appraisal that we received after this was published, but we wanted you to be aware of what the appraisal was. We are still reviewing parts of the appraisal, but the loan-to-values are something that we felt that the Board needed to have.

Seven Directions is -- we're requesting permanent and construction loan financing on Seven
Directions. It is a 36-unit infill project with a 20,000 square-foot community-based health care facility in Oakland, which is in Alameda County.

The project will be owned by Seven Directions Housing Limited Partnership, and will include EBALDC, which is East Bay Asian Local Development Corporation, and the Native American Health Center, Inc. The Native American Health Center, Inc., will be owning and managing the health centers that are part of the project. And we have a long history with the EBALDC. I think this board probably remembers a couple of projects, Coliseum I was a recent project we brought to this board, as was Coliseum II and III.

The construction loan that is being requested today is in the amount of $8,750,000, at a variable rate for 18 months with tax-exempt money.

The permanent loan will be for $1,600,000 at 53 percent for ten years. This project is going to have 18 project-based Section 8 vouchers provided by the Oakland Housing Authority. And as you saw, we have a large construction loan and a small permanent loan. The reason being, there are a multitude of other sources on this particular project.

There's money from the Redevelopment Agency of the City of Oakland in the amount of $3,289,000 for
55 years at 3 percent, residual receipts. The City of Oakland has two loans, one in the amount of $1,216,000 for 55 years at 3 percent, residual receipts, and then a deferred interest loan in the amount of $93,972 for 55 years.

The Department of Housing and Community Development and the Multifamily Program is for $2,606,331 for 55 years at 3 percent, residual receipts, as well as an SSS loan from MHP, the non-residential space for supportive services, in the amount of $250,399 for 55 years, at 3 percent.

There's also an AHP loan in the amount of $227,368 for 55 years.

And with that, Tina will take you through the project.

MS. ILVONEN: Good morning.

Seven Directions will be located in the Fruitvale neighborhood of Oakland, two miles south of downtown Oakland in Lake Merritt, which is up here, and a quarter mile north of the Fruitvale BART station, which is about four blocks south of this side.

This is a close-up of the neighborhood around the project.

This is the new Cesar Chavez Educational Center, which actually continues another three or four blocks
north. And this is the Goodwill retail facility.

This is another charter school.

This building here is the Fruitvale Medical Center; and this building here, on the corner of 29th, is a grocery store.

This is a closer-up view of the surrounding area next to the project.

This is a furniture store right next to the project.

On the corner of Twenty-Ninth and International, this is a restaurant.

This is a 16-unit apartment complex abutting the project.

This building back here is the historic Cohen-Bray House, which was built in the 1870s.

Next door here is an IHOP, which is vacant currently.

And this is a close-up of the site, looking southeast from International Boulevard.

This is a half-acre site. It's been vacant since 1976. It was formerly the location of a retail and furniture warehouse building. There was a Phase I and Phase II completed on the project in 2002.

In the Phase I, they had a concern about neighboring properties possibly contaminating our site.
with possible leaks from those properties.

There was a Phase II completed, and subsurface sampling was done. Low concentrations of diesel were found, but they were below regulatory levels and they were not required to be removed.

These reports have both been reviewed by our environmental consultant, URS; and they do not have any further recommendations for further investigation. There will, however, be a Phase I update before we close the construction loan.

This is just a close-up of the Cohen-Bray House behind the project. It was built in the 1870s. It's on the Historic National Register.

Okay, this is a site plan of the project. As you see, the building envelope is taking up almost the entire site, except for the very back, where there will be some trees planted. This will be a five-story building, which will include 36 units and the 20,000 square-foot community-based health care facility.

The health care facility and the residential units will be divided into two separate legal descriptions. CalHFA's security will be on the housing parcel only.

Okay, this slide shows the two very different facades on this project.
The south facade along International Boulevard is a commercial facade, showing the five stories of the project.

In the rear, the project steps down to two stories, and it's a residential facade, in keeping with the character of the residential neighborhood on Twenty-Ninth Avenue.

And I wanted to show the floor plans in the slide presentation to show the separation between the health center and the residential units.

These areas here are the parking garage. There will be an entrance here, which will be open during the day when the health center is open. There are nine parking spaces here for the health center.

There's a gate here, so the residents can have their own gated, secured parking area. There's 31 parking spaces here, and the units -- I'm sorry, there's an elevator here. Then there's a separate residential lobby with mailboxes and an elevator.

This is the first floor of the health center, which will house outpatient mental health services, as well as conference rooms, offices, and a community garden for gathering.

This is the second floor. On this floor, there are three residential units, as well as the community
room for the residential, which will have social services
coordination, job training, and a commuter room.

There's also the primary-care medical facility
and comprehensive dental on this floor. The elevator for
the health center stops on the second floor, and that's
the last stop for that elevator, whereas the residential
elevator goes all the way up to the fifth floor.

The third floor has more units, as well as a
community garden and play area for the children, a
contemplative garden for adults. And that's in that
location, because the Cohen-Bray House wanted quiet
neighbors. They're located over here (pointing).

This floor also has the manager's unit, the
manager's office, laundry room.

And the fourth floor has more units. The units
in this project are studios, one-, two-, three-, and
four-bedrooms. As you can see, the project is starting
to step back here.

And the fifth floor is only about a third of the
floor, with the remainder of the units.

Okay, this slide shows the project units and
the market rate rents. Project rents range from 30 to
60 percent of market-rate rents -- I'm sorry, 30 to
60 percent of area median income. The market rents shown
on this slide are from the market study, which was
completed in January. Since the Board package went out, we have received the appraisal. And we are relying on the market rents from the appraisal versus the market study, because the appraisal surveyed market apartments in a tighter area around the project than the market study did.

The market rents from the appraisal are 725 for the studio units, 925 for the one-bedrooms, 1,250 for the two-bedrooms, 1,500 for the three-bedrooms, and 1,700 for the four-bedrooms.

Lastly, I just wanted to talk about the Section 8. Normally, when there is a Section 8 contract with CalHFA projects, you'll see a 30-year first mortgage and then a ten-year second mortgage based on the Section 8 increment rents. On this project, we are requesting approval for, with just one ten-year loan because the loan size is just $1.6 million that they're requesting. So we are relying on Section 8 rents to repay the first mortgage.

On this project, we have a commitment from the Oakland Housing Authority for 18 project-based vouchers for a ten-year term. We will require that the agreement to enter into the Housing Assistance Payment contract be signed before the construction loan closes and the HAP contract will be signed before the permanent loan closes.
The underwriting rents that I used on this project are lower than the contract rents that I've received from the Housing Authority, just because I wanted to be conservative on this.

Actually, the contract rents are 1,285 for the two-bedrooms, 1,650 for the three-bedrooms. The underwriting rents I used were 1,200 and 1,650.

I also did not trend the Section 8 income up at all, so it's flat over the whole ten-year term.

And lastly, there's a $61,800 transitional reserve in the event the Section 8 rents go down at all during the ten-year term. We have that available.

The last thing I wanted to discuss was the high cost per unit on this project. It's $418,000 per unit. There are several reasons for that. This is an urban infill site, so the number of units they were able to construct and spread their costs over was fixed over 36 units.

Secondly, the rear of the project abuts that historic Cohen-Bray House. As a result, the building envelope was forced to step down at the rear of the site from five stories, to three stories, and then two stories, as you saw on the floor plans.

Third, in order to satisfy abutter concerns and the local planning board, the building is designed with a
commercial facade on the front and a residential facade on the rear, which costs more to construct.

Finally, the lower floors of the project will house the Native American Health Center, a full-service health center. And the use of this space by the health center requires additional concrete and waterproofing of the slab between the residential and clinic portions of the building.

MS. WHITTALL-SCHERFEE: And with that, we'd be happy to answer any questions. And we're requesting approval of Seven Directions.

ACTING CHAIR SHINE: The security for the first trust deed in the amount of $1.6 million will be the residential portion of this project.

Is there going to be a recorded air space map or some means by which you can get title insurance to ensure that you have something to foreclose on, if you have to?

MS. ILVONEN: Yes.

MS. WHITTALL-SCHERFEE: I don't know.

MS. ILVONEN: Yes.

ACTING CHAIR SHINE: So those different-colored areas were overall air spaces.

Are the individual units of the residential site also air-spaced by unit, or is it air spaced just by the envelope?
MS. ILVONEN: No. There will be two parcels:
A residential parcel, which will include a portion of the
land, as well as the portions of the building that are
residential-related, and a commercial parcel, which will
include a portion of the land and the commercial portions
of the building.

MS. WHITTALL-SCHERFEE: And our financing is
only on the residential portion of the building. The
financing for the health center is from another source.

ACTING CHAIR SHINE: So the source of my
question was, that being the case, can we -- are we
comfortable that we can carve out the security for the
note and deed of trust that we have?

MS. ILVONEN: Yes.

ACTING CHAIR SHINE: So that if you have to
foreclose, you have something to foreclosure on that
would --

MS. ILVONEN: We've actually been in discussions
with Nicole Slaton from CalHFA, and Tom --

MS. WHITTALL-SCHERFEE: She's in our legal
department.

MS. ILVONEN: -- in our Legal Department, Tom,
and the borrower's attorney about exactly how this would
be finalized.

They're working on the tentative map right now.
We will have the final map before we record the construction loan.

And we're also working on an inter-creditor agreement.

ACTING CHAIR SHINE: So there will be an air space map on record before we fund?

MS. WHITTALL-SCHERFEE: Yes.

ACTING CHAIR SHINE: Any other questions from the Board?

MS. GALANTE: I'm very familiar with the area. We actually are working on a project nearby. And I think this is a great addition to the neighborhood and a lot of interest in Oakland in revitalizing this particular neighborhood, and EBALDC is a great sponsor. So I am very supportive of the project.

I do have two questions. You say there's 18 project-based Section 8. And I am just trying to understand that chart that was up there with the market rate rents and the appraisal rents.

Is the CalHFA mortgage purely secured by the Section 8 rents, or are we also relying on achieving -- and I'll just state my concern, which is I think these 60-percent rents, there's five or six of them, are at or above market for the neighborhood. And, you know, I didn't quite catch all your appraisal rents versus --
the market-study rents clearly are off-base, there's no
doubt about that. And I didn't quite catch all the
appraisal rents. But these still seem fairly aggressive
to me.

MS. ILVONEN: The project rents -- I forgot to
mention that one. I did go over that slide.

MS. GALANTE: So these may be covered by
Section 8. I'm just not clear on how that's working.

MS. ILVONEN: The project rents did not include
the Section 8 rents. They just included the 30 to
60 percent rents that are being charged to the tenants.

The Section 8 rents are 1,250 for the
two-bedrooms and 1,650 for the three-bedrooms, and that
was not on the chart. The cash flow relevance on both
the rents from the 30 to 60 percent AMI units, as well as
the Section 8 increment. And the project rents are
between 40 and 89 percent of the appraised market rents.

Did that answer your question?

MS. GALANTE: Yes.

MS. ILVONEN: Yes.

MS. GALANTE: We're relying on these rents.

So let me ask another question then. It looked
like there's a really high hard-cost contingency,
soft-cost contingency. And I assume the project hasn't
been bid yet, and trying to be conservative about pricing
going up.

If there is savings, if we don't -- if they
don't use all that contingency, can some of that be used
to lower some of those 60-percent rents?

MS. ILVONEN: Well, actually, okay, there's a
couple things. One, at the time this Board package was
sent out, we didn't have bids from the investor, either.
And the investor bids have come in higher than were
shown on this board write-up. So I am expecting that the
permanent loan will probably go down.

I don't know what an EBALDC will do with the
60 percent rents. We haven't talked about that at all.
But I expect that CalHFA's final loan on this will be
lower than 1.6 million.

Also, you're correct, the project has not been
bid out yet. Although the design is further along than a
lot of other projects that I've taken to board, so it
is -- it's further along.

And the contractor has been selected and has
looked at the plans. So the numbers in the Board
presentation are hopefully pretty close to what the final
bids are going to be coming in at.

There is a large contingency just because
they're not final bids. So we wanted to have some room
in there.
MS. GALANTE: Okay, I'm very supportive of it. I just had a little note of caution about those 60 percent rents. And I would encourage you all in conversation with the sponsor to think about, you know, if things get better, to think about trying to lower those closer to 50 or 55 percent.

MS. PARKER: Yes, we'll take that back to our sponsor and essentially see if that is -- if there is some ability, when all the numbers come in, to see if there's the ability to do something on the rent, reducing the rent.

This is a great sponsor.

MS. GALANTE: Yes, I agree. I agree.

ACTING CHAIR SHINE: Comments from the Board?

(No audible response)

ACTING CHAIR SHINE: From the public?

(No audible response)

ACTING CHAIR SHINE: A motion?

MR. MORRIS: So moved.

MR. PAVAO: Second.

ACTING CHAIR SHINE: Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Aye.

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Aye.
MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: Resolution 06-10 has been approved.

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**Item 4. Discussion, recommendation and possible action relative to final loan commitments for three projects. (continued)**

**Resolution 06-11 (Villa Vasconcellos)**

ACTING CHAIR SHINE: Okay, we have a third project in front of us today, 70 units in Walnut Creek.

MS. FRETZ-BROWN: Yes, sir. The third project is Villa Vasconcellos in Walnut Creek; and Ed Gipson, Chief of Multifamily Lending will be presenting.

MR. GIPSON: This is a final commitment request for Villa Vasconcellos, a 70-unit new construction senior project located in the City of Walnut Creek in Contra Costa County. The sponsor is Resources for Community Development. The borrower will be Villa Vasconcellos LP, a California limited partnership.
This is a special-needs project. Twenty-five of the 70 units will be for seniors who are homeless or have mental or physical disabilities. There is a construction loan in the amount of $11,435,000, and they are requesting a permanent mortgage of $121,518. A very small perm.

The construction will be tax-exempt. The permanent is expected to be Agency funds, most likely Housing Assistance Trust funds.

This project has received a large number of residual receipt financing. The City of Walnut Creek has provided CDBG funds, RDA funds in lieu of fee funds, if you will. Contra Costa County is providing HOME financing and HOPWA financing. In addition, it has AHP.

HCD has provided MHP financing.

And with that, I'll let Kathy provide us additional details about the project.

MS. WEREMIUK: Good morning. I'm Kathy Weremiuk, and I'm pleased to be bringing this project to you.

Resources for Community Development is a sponsor we've worked with many times. They have an emphasis on providing service-enriched housing. In the Bay Area, they currently have 379 port of service units in operation, and they have another 58 in construction.
The property is in Walnut Creek. It's 15 miles north of downtown Oakland. It's a bedroom community.

The project itself is on the junction of Geary Boulevard and Powell Avenue. It's adjacent to the I-680 freeway, about two blocks from it. And this is North Main Street. It's a major road that runs two miles to the south. It will go under -- back under the 680 and turn up in downtown Walnut Creek, which has tremendous facilities for rents in the residents in the town center.

It's close to the Pleasant Hill -- a third of a mile from the Pleasant Hill Town Center and BART station. There is a bus stop on the corner of North Main and Geary, providing transportation for the seniors.

The general character of the neighborhood is very stable residential.

Adjacent to the property, there are some commercial uses. Across the street, there is a vacant commercial parcel that had been a food co-op at some point. It will be redeveloped, although I believe there are some environmental issues on it that will delay the redevelopment of that parcel.

There is a gas station and a fast-food outlet -- McDonald's or Burger King, I can't remember which -- on North Main. And then the main entry to the project is off of Powell, and it will be through the residential
portion of the neighborhood.

The project itself currently is -- and you'll see -- I was saying what it currently is. It's currently a vacant lot.

At the time this photo was taken, it was an abandoned Alzheimer's unit that was in the process of demolition. It has been abandoned for several years. And there are no relocation issues associated with the site.

The site had a clean Phase I. The building itself had some asbestos that was in the existing building.

We will require that all of that asbestos be abated appropriately and removed appropriately at the time that we take down the construction loan.

The only other issue that came up on the property was noise from the I-60 and also from Geary because it's a major arterial. And the remediation is some soundproofing of the walls and windows on the commercial-facing portions of the building. And that's been built into the building design -- the proposed design.

On the site itself -- and I'll show it later on the site plan -- this is Powell. The entry will be through Powell. It will be a gated entry for security,
although the neighborhood is very secure, and it doesn't
necessarily require gating.

The site is, as you can see, irregular, and it's
about a 1.4 acres.

This is a front view on it. There's some
elevation issues. The site slopes in several directions.
I'm sorry, the slide is kind of dark; but I'll just --

This is looking across. And it's, again,
showing the elevation. This is the vacant parcel. This
would be the roofline of the abandoned co-op across this
street.

This is some of the commercial that's adjacent
on Powell Street.

The architect is Van Meter Williams Pollack.
We've worked with them before. They're terrific. They
did the Fremont Oaks special-needs project for
hearing-impaired seniors. I thought that project turned
out to be more beautiful than any project that I have
worked on in the years that I've been with the Agency.

This is the front of Geary. Although it is a
street frontage, the main entrance for the residents will
be from behind. And they've dealt with some of the
elevation issues on the property. There's sloping --
they've dealt with some of the sloping in the front by
putting walkways in on the area of the project that abuts
the commercial -- North Main and commercial areas.

The building will be three-story. It will step down to a two-story building as you get to the residential, the area of the site that has residential abutments.

The architect took some renderings and some photos of a model they developed to show us some of the detailing we anticipate seeing: awnings over cornered windows, recessed windows, parapet, overhangs, nice detailing in the stucco. It will be a stucco building with some wood siding. And it has two interior courtyards, a fairly attractive interior lobby.

This is the site plan for the building. It's built around two interior courtyards for the senior residents. Most of the units are off of double-loaded corridors.

The residents will be entering through the community section of the building here (pointing). There's a very large community room and kitchen and a very extensive supportive service base, five offices for services and management.

Built into the project is a coordinator position. Half of that position will be funded through the operation of the project. The remainder will be funded through fund-raising.
The service provider is Pittsburg Preschool Community Council. It sounds like a strange name for a senior project; but they, in fact, started as a preschool, expanded. And they're doing other senior supportive housing projects with RCD currently.

They have joined forces with the County Aging and Adult Services Group, the Health and Homeless Service programs, and a group called New Connections, so that they'll be providing, through those connections with other agencies, mental health services, medical case management, crisis management, and substance abuse assistance for the residents.

The services will be available to all 69 residents in the building. Not just for the 24 units that are getting supportive services, but the services will be more intense for the supportive services residents.

Because of the very, very small size of the permanent loan, we have been talking with HCD staff; and we think that it's more appropriate for HCD, who has a larger loan, to do most of the monitoring on this project. And so you'll see a scaled-back management plan for Villa Vasconcellos because we have only a $120,000 permanent loan. HCD would monitor placement reserves. And also we'll follow their service plan recommendations
and not add any additional recommendations from the Agency.

Because it's a senior building, there will be a longer lease-up period. There is a small reserve for rent-up.

The units -- 35 percent of the units will be the 20 and 35 percent units. Those will be for the residents that need supportive services. We anticipate those will lease up in two months.

There are 44 units that are 50 percent AMI. They're at $739. They're about 75 percent of market. And those units, there will be a longer lease-up period.

There are no subsidies for this project at this point in time, in part, because they're just not available in Contra Costa County right now. There may be some Shelter Plus Care available later on; and if there is Shelter Plus Care available later on, you may see a small increase in our permanent loan.

With that, I'll entertain any questions that you have.

Thank you.

ACTING CHAIR SHINE: From the Board, comments, questions, concerns?

(No audible response)

ACTING CHAIR SHINE: I have just two minor
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questions, and it had to do with mathematics. You know what I'm going to say.

MR. GIPSON: I'm guessing.

ACTING CHAIR SHINE: We have 500 85 square-foot units, and if you do the math, that adds up to 42,000; and yet we're building 60,000 feet. Is the common area 18,000 feet?

MS. WEREMIUK: There is an extensive common area in the building. But I'm not sure, and I'd have to go back.

ACTING CHAIR SHINE: So 30 percent of the project that we're building is common area?

If that sounds like the deal, that's the deal. I just wanted to know.

MS. WEREMIUK: They're double -- it may be the counting of the double-loaded corridors, and also we may have counted, when we did that, the two interior courtyards. And I think that's something that we would have to go back to the plans and do a second takeoff on it.

ACTING CHAIR SHINE: It doesn't change the project.

MS. WEREMIUK: Right.

ACTING CHAIR SHINE: I was just curious.

The only other comment that I have, or question,
is under use of funds of new construction, you had a
construction contract line item for 9.4 million. That's
a duplicate of the other costs in there. Otherwise, it
adds up kind of funny.

MS. WEREMIUK: Let me take a quick look at that.
MS. PARKER: It's at page 201, Kathy.

ACTING CHAIR SHINE: The seventh item down, it
says --

MS. WEREMIUK: Oh, yes, it is a duplicate.

ACTING CHAIR SHINE: That's a non-add --

MS. WEREMIUK: It's a mistake. It's just a --
we take our -- it's just a total. We take a reserve off
of that total cost, absent the utility and test
inspections.

ACTING CHAIR SHINE: So your contract is going
to be $9.4 million, even though the work may be less or
more than the line items?

MS. WEREMIUK: Right.

ACTING CHAIR SHINE: That's fine.

Any other comments from the Board?

(No audible response)

ACTING CHAIR SHINE: From the public?

(No audible response)

MS. WEREMIUK: The project is pretty far along,
too, in terms of the numbers. These takeoffs were done
at 60 percent completion.

    Right now, they're going in for permits. I think they'll be filing permits next week. We do expect an upgrade and a new bid on 100 percent complete drawings. But the number is fairly good at this point in time.

    ACTING CHAIR SHINE: Good.

    If there's no --

    MS. GALANTE: I just want to comment.

    This is a fabulous location. And then all the resources they've been able to pull together is pretty impressive as well to take this on. So I think it's great.

    ACTING CHAIR SHINE: Okay, there being no comments, do I hear a motion?

    MS. GALANTE: I move.

    ACTING CHAIR SHINE: Second?

    MR. AUGUSTINE: Second.

    ACTING CHAIR SHINE: Okay.

    Call the roll.

    MS. OJIMA: Mr. Pavao?

    MR. PAVAO: Aye.

    MS. OJIMA: Ms. Nevis?

    MS. NEVIS: Aye.

    MS. OJIMA: Ms. Galante?
MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: Resolution 06-11 has been approved.

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**Item 5. Update on Bay Area Housing Plan**

ACTING CHAIR SHINE: Okay, that being the case, we now want to have a little discussion, an update on the Bay Area Housing Plan.

MS. PARKER: Edwin and Kathy are the primaries.

MR. GIPSON: We're going to provide an update to the Bay Area Housing Plan. We've discussed it many times, and we have been before the Board twice for approval now, up to $45 million, and rightfully so. We're providing you a progress update on where we are today and a few of the things that have happened and a few of the surprises along the way. Although those aren't great, they took longer than expected. And I think that's really what the key is. And I'll let Kathy go into further detail in explaining where we are and what we expect to have.
But I'll just add, we do have a handout in front of you. The cover page says "BAHP Purchase Agreement Log." It's just a little handout. It does point out some of the projects that have been -- sites identified as some other things.

And with that, I'll let Kathy Weremiuk elaborate further.

MS. WEREMIUK: Hi. In January, when we came before the Board and asked you for an additional permanent loan commitment of up to 45 million and an additional preliminary commitment taking the total financing up to 120 million, we fully anticipated that we would be through the facilities closing at this point in time. We are not.

We brought that project to the Board so that the Agency wouldn't be the party that held back the ability of the master developer, DDS, and the regional centers to meet the Agnews closing deadlines of December 2007, which had been set by the Legislature.

The reason that it really did not happen is the incredible complexity of the project and of the closing process that we're going through. It's new ground. It's new ground for all of us.

The Agency -- through the Agency and with the help of Morgan Jones from McDonough, Holland & Allen,
have developed more than 30 new loan documents, some of them completely from scratch, that are out and being circulated for comments from Bank of America, the three regional centers, the three nonprofits, the master developer DDS, and the attorneys for the syndicate Bank of America has put together to participate in the project.

Some of the documents are almost at finalization; some are still waiting for comment. And that's only our set of documentation. B of A has its loan docs and the loan purchase agreement. The regional centers have all the Bay Area Housing Plan docs which need to be updated. Some needed to be rewritten. They have agreements with the NPOs. DDS had contract language, as well as several legal opinions that we needed.

We are close to finalization on everything that has to do with the Department of Developmental Services, and fairly far along on the work that we're doing with Bank of America.

Our current expectation on this is that the closing will occur at the end of this month or the beginning of April. And there will be two closings that will occur. It will be the Bank of America facilities closing, which would mean essentially approval of every
document that's going to be involved in the transaction, all the way through, from the beginning to our loan purchase -- or purchase of the 72 loans over the next two and a half years.

And there will also be a syndication closing, with the several banks that are participating in the syndication by assignment that Bank of America has put together for this process. I think they've identified --

Gabriel Speyer is here from Bank of America, and I think they've identified all those banks, and they've got their documents ready to go out to them in almost-final form on Friday.

Through this process, we have really not changed our term sheet; but I would say crystallized a range of issues that had to be dealt with, both in terms of what the loan purchase would look like and anticipating transactions on properties we've never seen two years hence, to crystallizing exactly what would happen with the sale of our bonds, working through all of the bond issues, with Bond Counsel and our Finance Department, working through a myriad of legal issues with our Legal Department, billing issues with our Accounting Department, and how we would handle the asset management of this, as well as working through what kind of scope of work master design guidelines we would get from the
master developer of the project.

We're close. It's a lot to pull together. And I think we have been working full-time and working hard. We wish we were done. I know I do.

The master developer, as he promised at the last meeting, has continued to go out and look for properties. They've surfaced 20 -- or 19 properties that they could have bought. Ten they lost because of the delays in the closing. They made offers on nine. They have two under contract.

The surprise that they have found is that, despite what the newspapers say, the real estate market is not quiet. They've lost a couple of properties on overbids and not being able to move as fast as the sellers wanted them to move.

There are still five that are pending. They also found they lost some because they hadn't coordinated all of the signatures they needed from the Regional Center steering committee, and how they got that whole process working, they've perfected that as they've been going along.

Their offers are, at this point, with funds that are refundable because they haven't put hard money down. They will, as soon as the close takes place. And we anticipate that as the facility's close happens, we will
probably have properties that we'll be taking official action on within 10 to 20 days after that facility's closing.

The material that I provided for you was a tracking sheet from the master developer on the properties they've identified. I wanted to let you know that they have been working on this, our term sheet, and how that's developed.

And then a checklist -- I didn't give you the documents, but the 108 steps in our closing checklist that would take us through the facility's closing process, all the way through the steps that we would take with Bank of America agreeing to add the property to collateral and acquisition, what we would need for that at the point at which we approved the plans and specs, which would be before the first construction draw. The point that we agree that we will take down the loan when it has stabilized and everything is set; and we agree that we'll buy the loan within 180 days, and then what our bond steps would be and what closing would look like.

Each of those steps represents documents, thoughts, and work that we've been putting into it.

We'd welcome any questions.

ACTING CHAIR SHINE: Huge job. Good show.

Any comments or questions from the Board?
MS. PARKER: Mr. Chairman, I know that we have
some of our colleagues from Bank of America that are
here. I just want to make sure that we recognize Garrett
Bell is here. I don't know if anybody else on your team
is.

MR. GIPSON: Yes. Gabriel Speyer is here today
from Bank of America.

MS. PARKER. If you would stand up.

MR. GIPSON: And Morgan Jones from McDonough,
Holland & Allen, our outside counsel, who has been
working diligently.

I will say, it has been a monstrous effort,
without a doubt. I'm very proud of the team and
everybody who has put stuff into it to move a great deal
of the way. Because you can take a look at that
checklist. And rest assured, there will be a few more
items on it, without a doubt. But this whole process, we
are trying to be very careful, concerned; and we are
trying to give them what they need in a timely manner.

All parties have different understandings and
different expectations in certain areas, certain groups
who we are working with are not familiar with real estate
as well, so making sure they have the appropriate
counsels, and working with them and working through the
details.
MS. PARKER: Is anyone here from the Department of Developmental Services?

MR. GIPSON: I don't believe I saw anybody today.

MS. PARKER: That's the other leg of the stool that brings in huge complexities: the Department of Developmental Services and the regional centers.

MR. GIPSON: And the regional centers.

MS. PARKER: So it is many cats to herd. I say that with great affection.

MS. WEREMIUK: It's also the Department of Health Services. I mean, their Department of Social Services, we've been in discussions not just with DDS, but a range of parties as we've been doing this. But DDS has been incredibly helpful and gracious through the process, and really has been trying to facilitate it from their side.

ACTING CHAIR SHINE: Does anybody in the public want to say anything, ask any questions or make any statements or comments?

MR. SPEYER: I'll echo what Kathy said regarding the complexity of the project.

Thank you.

ACTING CHAIR SHINE: It is not a small checklist.
MS. GALANTE: We have an expression that says, "If it were easy, someone else would have done it by now."

ACTING CHAIR SHINE: That being the case --

MS. PARKER: This is an information item only, Mr. Chairman. There is no action to be taken. Just given the significance of this, we believe it's really important to continue to give you information at every Board meeting about where we are at in this process.

We'll be chatting a little bit more about it when we go through our business plan update because -- our concept business plan -- because, obviously, it will fit into the Agency's production goals for the next year.

ACTING CHAIR SHINE: That being the case, let's take a 15-minute break.

(A recess was taken from 10:36 a.m. to 10:47 a.m.)

MS. PARKER: The majority of staff here are really from the Agency, because we've had the meeting in Sacramento, we try to have as many of the staff come and be able to participate and see what an actual Board meeting is like, see the Board member, see the decision-making process that you go through. So that's why there's considerably more people in the audience than there would normally be if we were in the Bay Area, if we
were in Los Angeles.

ACTING CHAIR SHINE: Good.

MS. PARKER: So, Ken, do you want to come up and introduce these PSAs?

Ken Giebel, our Director of Marketing.

MR. GIEBEL: Just a couple of words on this --

good morning, by the way.

About three years, we made some PSAs, and cut it together from some footage we had shot for a video. One of our initiatives this year was to redo the PSAs, humanize them. The people you are going to see -- and I will let Evan talk about this a little bit -- this is Evan Gerberding, our Assistant Director of Marketing.

And Evan is our video person. She comes from TV. So these are Evan's work, along with our ad agency.

And with that, Evan, why don't you explain what we're attempting to do here? And I think we've been very successful, at a very small cost.

MS. GERBERDING: The intent was to show real borrowers. These are actual borrowers in all cases but one. And they're real stories. So we're trying to be as authentic as we possibly can here. And I think that you'll see that they are very genuine.

We have four 30-second TV spots. Two are general market, homeownership spots. One is the same in
Spanish. And then we also have one that focuses on what
our Extra-Credit Teacher Program is. We're also going to
air 60-second radio spots as well.

MR. GIEBEL: Just one other thing to let you
know. These are PSA spots. Typically, they're run at
the stations whenever they feel like it.

MS. GERBERDING: Three o'clock in the morning.

MR. GIEBEL: Whenever they have excess air time.

But we are working with the California Broadcast
Association, and they have a special program where they
buy -- they position it as a PSA that stations have to
run under the federal laws; but they inventory and
actually buy the excess inventory on radio and TV with
138 stations across the state. And at a very nominal
cost, we can buy this air time in specific markets, and
ensure that these are run from 6:00 in the morning to --
what is it, midnight?

MS. GERBERDING: From 6:00 a.m. to midnight.

MR. GIEBEL: Midnight.

MS. GERBERDING: And many end up in prime time,
believe it or not.

MR. GIEBEL: So it's excess inventory, that they
now get the inventory under their -- if you sign up with
them, and all the independent stations are.

So we plan on running these in the spring. The
Board of Directors Meeting held on March 9, 2006

homeownership ones will probably sit on the ECTP one, the Extra Credit Teachers Program, a little bit longer.

Okay.

(Public service announcements played as follows:

"Ten years ago Matthew Nichols found this used guitar in a small music shop. He spent days repairing it before it would play. And while he worked, Matthew dreamed of someday owning a home of his own and fixing it up, too. But the rising cost of homes in California seemed out of reach, until he learned about the California Housing Finance Agency. They've helped Matthew and many others become first-time homeowners.

"To find out how CalHFA can help you, call us or visit our Web site."

--o0o--

"This photograph has never been far from Kathryn and Philip Kay. Even when they moved from across the world, Kathryn insisted in holding it in her lap during the trip. They also held on to a dream that one day
it would hang in a home of their own. But the cost of housing in California seemed out of reach, until they learned about the California Housing Finance Agency. They've helped Kathryn and Philip and many others become first-time homeowners. "To find out how CalHFA can help you, call us or visit our Web site."

---o0o--

"With a teacher's moderate income, who can even dream of owning a home in California? Thanks to CalHFA, Rodney can. By taking advantage of CalHFA's Extra Credit Teacher Program, Rodney was able to realize his dream of owning a home. The California Housing Finance Agency has helped nearly 1,200 California teachers become first-time homeowners. "To find out how CalHFA can help you, call us or visit our Web site.")

MS. GERBERDING: Now this last one you are about to see is in Spanish, but we've added English subtitles
to it. This, of course, isn't going to air that way, but just for your benefit, they're on there.

(Public service announcement played in Spanish.)

MR. GIEBEL: Thank you.

ACTING CHAIR SHINE: Nice. Very nice.

MS. PARKER: I want to make one other pitch for our Marketing Department, and that is, they've been working particularly on the Extra Credit Teacher Program, and had a major breakthrough with the assistance of the Treasurer's office in getting the CTA to waive an original denial for us to be able to have our Extra Credit Teacher Program marketed in competition with some of their other vendors. So I really want to appreciate and acknowledge the efforts of the Treasurer's office in helping us with that program that I know is very important to the Treasurer.

I'm going to swing around here and participate in the presentation of our business plan.

MR. MORRIS: Just one question on the PSAs.

MS. PARKER: Good, yes.

MR. MORRIS: Are those going to be on the Web site as well?

MS. GERBERDING: Yes.

MR. GIEBEL: Yes.

MR. MORRIS: And also, is it possible -- I think
the Governor's Web page probably gets the greatest amount
of hits.

Is there any way they will let us put those
on --

MR. GIEBEL: We'll have to ask them. But at the
very least, we should be able to get a link.

MR. MORRIS: Yes, that's what I mean, a link
from there.

MR. GIEBEL: Right. We're linked to HCD and
some of the others and TC&H.

MR. MORRIS: Okay, great.

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Item 6. Progress Report on Development of CalHFA

Five Year Business Plan

MS. PARKER: It's still "good morning."

So we've tried -- every year in the March Board
meeting, we essentially start out the new fiscal year --
in January updating where we are and a business plan from
a midyear update. Then we come back in March, and we
essentially talk with you about a concept proposal for
the business plan to be adopted by the Board in May.
This is based on us having meetings with some focus
groups, some of our customers, to find out what's going
on in the market, what we think some of the major needs
are. And also us looking at our internal resources and
capacities, to see what we think we can stretch and
propose to the Board as a business plan that, once
adopted then, this becomes the instructions to the staff
of what our goals and missions are for the next upcoming
year; but also to our community, what our business plan
is for the next three to five years, so they can plan on
these resources and these lending programs being
available, if they can't have access or are working in
the middle of a deal now that may not come to fruition to
apply for our loan products for the next year or two.

So I am going to walk you through with the
assistance of the senior managers; but I think what I
wanted to start doing just for the first is, is to tell
you how we're going to do this presentation.

The first thing we're going to do is start off
by giving you an overview of the Housing Assistance Trust
funds for program initiatives. And that's really our
Agency's resources for us to have the maximum flexibility
of investments to further our mission and goals.

From that, once we set that stage, we're going
to talk about the production goals for Homeownership,
Mortgage Insurance, Multifamily, and other lending
programs; and then we're going to talk a little bit about
where we are on our Asset Management and our REO
properties, and talk with you about some of the
considerations that we also want you to be aware of in
order for us to meet what these concepts are, and may be
some impediments to meet those concepts.

So to begin with, I'm going to ask Bruce to
provide a segue between some of the discussions we've had
and last meetings, going through our financials, going
through the updates by Gene Slater on our assets and our
portfolio that bring us to what our recommendation is: of
using the Housing Assistance Trust funds that are on the
slide before you.

MR. GILBERTSON: Thank you, Terri.

Good morning. Unfortunately, I look at the
Board that's sitting in front of me today, and I don't
see many faces that participated last year in the
analysis that we did. We called it the resource
allocation study. There's a few of you; but some of the
Board members are new, and people simply weren't able to
attend some of the meetings. But we did contract with
CSG Advisors during 2005 to conduct what we refer to as a
"resource allocation study." We did this in conjunction
with an annual effort of running our consolidated cash
flows that we do for bond-rating agency purposes.

We shared the results of the resource allocation
study and the cash flow analysis with the Board at two
times during last year. There was an April special
session of the Board, and then as a part of the
July board meeting.

The good news is, of course, we passed even the
most stressful rating agency runs for our two primary
indentures. But what it did illustrate to us is that
there were some serious restrictions, if some of the most
stressful runs were to actually happen. And these are
situations where interest rates go to extreme levels, or
prepayments go to extreme levels. And what we came away
with from that exercise, is that we wouldn't be able to
withdraw large sums of monies from the indentures to pass
stressful environments in our two primary bond
indentures: the one we operate our single-family housing
program from and the Multifamily Program.

The second phase of that resource allocation
study was to model up the business plan that the Board
approved last May. So we took the annual production
levels and assumed that we would reach all of those
production levels. We would issue bonds accordingly.
We modeled that over a five-year period, using management
expectations. Not stressful expectations of interest
rate environments that we don't really foresee ever
happening or prepayment levels that we would ever foresee
happening.

So part of that, we used an amount of about
$65 million from the Housing Assistance Trust to support special program initiatives of the Agency, similar to those that you see on the slide in front of you.

The expected cash flow analysis, what that pointed out to us is that over that five-year business planning period, beginning in 2005, running to 2010, continue to show positive growth of fund balances. However, the growth was at a slower pace than what we had realized historically within the Agency.

That analysis has not been updated since last summer. I think we last looked at that in July.

We have since then seen financial statement results as a part of the annual auditing process. And I think that was brought before you in November. Operating results were not robust, perhaps the lowest that this agency has realized in a number of years. $21 million of net income.

With all of that as background, we felt that a prudent management level of expenditure utilizing our Housing Assistance Trust funds would, again, be a $65 million number.

MS. PARKER: I think the importance of this is, in the past we have essentially talked with you about, you know, production levels in these programs, but really haven't brought into focus the utilization of the Housing
Board of Directors Meeting held on March 9, 2006

Assistance Trust funds. And at the end of the day, for
the Board, this is really your decision-making process,
because the production levels in those different programs
will fall out, depending on what you do here.

So we are -- and we're trying this last year to
discipline ourselves, and holding ourselves to the
$65 million, so that we manage the amount of money that
we're taking out of our indentures on a planned stream;
that we don't use any one of any great amount in any
given one year, and then not have that in an upcoming
year, or more heavily rely on increased profitability
that may or may not come.

So what we're trying to do here is, given the
additional information that we have been able to do
through this analysis, looking at profitability and also
what we want to achieve from a public benefit stand, we
have come back and made our recommendations to you here.

And we will talk through, if the Board decides
to adopt this strategy and/or wants to make some changes
to it, what we think that that may mean from the
productions that will follow this.

So I am just going to go through and give you
some sense of what this actually means in the
productions.

We're proposing to have about $35 million be
available for Down Payment Assistance.

Now, two years ago, the Agency spent almost
$85 million of Housing Assistance Trust fund and Down
Payment Assistance to do about $1.2 billion with
single-family production.

We decided that we just could not maintain
that amount of resources, of scarce Housing Assistance
Trust funds for Down Payment Assistance. And that's why
the last year we made some changes in some of the
single-family products that we did. We moved to an IO,
35-year loan product; and our regular 30-year product
being 100 percent loan, so that the Down Payment
Assistance or Prop. 46 could be on top of that.

But Agency funds for Down Payment Assistance
wouldn't be used to the extent that it was in the past.
So these -- we'll talk about what these are specifically
to be utilized in production in high-cost areas.

But we were able to discipline ourselves, and
even with that, increase our housing production. That
allowed us to be able to put more Housing Assistance
Trust funds into some of the programs in the Multifamily
area, which we started last year: Habitat For Humanity
programs. Continuing to fund our HELP program at a
$20 million level. Continuing to have a special business
development program. And more importantly also, put a
$10 million commitment in for funding for -- liquidity funding for Homeless Projects. And that ties into the Governor's proposal that was put in his May budget, and adopted by the Legislature, for a Homeless Phase I Initiative.

So we're building on that for the 2006-2007 level, going forward.

And if you see what we have proposed as far as HAT budget commitments, it is to keep Down Payment Assistance in single-family at about 35 million.

Our Self-Help Business Development -- or Self-Help Business program at two and a half million, we are proposing -- and we'll talk about this again when we go through the individual ones -- is to create a new subsidy program, or substitute program in Multifamily lending, which is the AHP -- we'll talk about that -- to maintain the commitment of $5 million for Habitat.

To have a $30 million locality program, half of it being funded from HAT, the other half of it coming out of Prop. 46 funds that we got legislation passed last year to create this residential development loan program, where we would use Prop. 46 funds to offer to, under this proposal, localities for them to do homeownership kinds of construction.

The portfolio management needs to reshore up
through some lending for some of our existing projects. And we're proposing that at $4 million.

The last column over here is what we are -- our expected HAT utilization. And as you can see, that numbering goes down to $65 million. And when there are variances between what we're proposing the budget to contain and what we expect -- expecting utilization, it's just, frankly, our best against, particularly for some of these new programs, of what the utilization will actually be. If we are surprised, we can handle it, we can manage it; but we think it's important that the community know, for example, that there's going to be $10 million in this new Multifamily lending program in order to create additional business, see it by developers that this could help projects pencil out. But the reality is that we don't think we're going to have any more than about a $6 million demand next year.

So I'd be happy to answer any questions. But we wanted to lay it out this way because, you know, this is really, you know, the major decision-making point for the Board.

MS. GALANTE: I just have some clarifying questions.

You've got broken down between single-family programs and Multifamily programs. But some of the
things listed under Multifamily programs are actually
going to Homeownership; correct? So it's -- is this
really kind of mortgage versus production? I mean,
Habitat For Humanity, and then you mentioned under the
Prop. 46 money, my sense was that some of that help was
for ownership, which I'm just trying to make sure I'm
understanding.

MS. PARKER: Right. I think as we go through
the slides, the reason why it's under Multifamily
programs is because the director of Multifamily
administrates -- it really manages these programs.

MS. GALANTE: Great, great.

MS. PARKER: On our slide, they'll show up as
special lending programs.

MS. GALANTE: Great.

MS. PARKER: Good question.

Okay, I'm going to let that settle.

And let us go in, and we'll talk about the
programs specifically.

To walk us through Homeownership, Jerry Smart.

Jerry?

MR. SMART: Good morning.

In the Homeownership program, we're proposing to
set a significant goal for our first mortgage production.

It represents about a 25 percent increase over the
current fiscal year.

This year, our goal was 1.2 billion for first-time home buyer lending; and we're proposing to increase that to 1.5.

We're fairly confident that we'll be able to achieve that with the support of the HAT Down payment Assistance-funded funds, the 35 million, plus Prop. 46, the four programs that we have there, will help support the origination of those first mortgages.

And as coupled with our continuation of the interest only PLUS program, since we introduced that last March -- April, I think it was -- we have seen that program increase to where it's now, roughly, about 38 percent and growing over our current portfolio. And that's without our major originating lenders participating. It's taking them some additional time to come on board.

Wells Fargo, Countrywide, Chase just started this last month. So once those major lenders participate, we think that this will continue to grow significantly.

We are also introducing the 40-year mortgage. In fact, we issued a bulletin last Monday to introduce this.

The lead time for programs in Homeownership
takes a while. And reservations that are taken today, it's going to take 90 days before we see delivery on those. We figure that our lenders are going to need at least 30 to 60 days just to get their systems up to date and ready to handle the program. So by the time all of this kicks in, it will be the beginning of the fiscal year.

And we think the 40-year, although it's not going to be as sought after as I would imagine the IOP -- the interest only -- I think it will become a significant part of our business going forward.

Homeownership will continue to evaluate and introduce new loan products to meet market changes and customer demand. For example, we're working with Fannie Mae and other HFAs across the country -- Mass Housing, to name one -- which we're developing standard branded products, or standardized loan products, such as the 40-year mortgage, so that can be utilized by HFAs across the country. And we will continue to look at that.

We'll continue to look at our current programs, to see if we can -- if they need to be amended or targeted to specific areas to improve productivity.

And we'll be implementing marketing and IT enhancements to stimulate production. For example, we
are looking at developing -- or we are in the process of developing a lead generation program. Currently, it's going to be very similar to the CalPERS lead generation, which will identify active loan officers, originators of CalHFA loans; and try to refer them -- or give them referrals -- loan referrals.

When we receive phone calls from interested home buyers, we can refer them to their most active participants, and turn those into real loans. Whereas, if they just go out now, they go to our list of potential lenders. And some of those, we'll never see again. They get flipped into something that's probably less beneficial.

So it's our hope that we set up this program, and with the follow-through that we visualize with these lenders, that we'll be able to turn these into potential CalHFA loans.

And we're continuing with our Homeownership origination project, to upgrade the loan reservation system. It includes a better business practice process, in which we'll analyze the current processes within Homeownership, and look at outside -- other HFAs and lenders to see what better business practices they have that we can adopt to improve our productivity and streamline our program.
So with that, that's --

MS. PARKER: Before I have you answer questions, I'm going to also introduce Greg Carter, who is our Interim Director of Mortgage Insurance.
And I think it's important for us to talk about Mortgage Insurance and our first mortgage loan programs together. Because, as Greg will tell you, these programs are really going hand in hand.

So, Greg?

MR. CARTER: Yes, we see our role in this business plan as actually supporting Homeownership's goal of 1.5 billion. In order to do that, we have looked at the history. In 2003, 12 percent of what we insured was Homeownership product. 2004 it was about 26 percent. In 2005, 51 percent of our insurance was on Homeownership product. And the trend is upward.

With the introduction of the new programs that Jerry has talked about and about to roll out, we see that we have to start to realign our resources to cope with the production levels that Jerry is going to do, translating into $840 million a year in that fiscal year for Mortgage Insurance.

So we need to be sure that our resources, both financial resources are available, as well as our physical resources: Can we handle that amount of
business?

And, obviously, we think we can; but these are the things we're looking at.

We want to continue to participate in the CalHFA loan program by offering low mortgage insurance premiums, as well as other products, similar to the HomeOpeners program, which is an unemployment insurance aspect of that.

We also want to participate as much as we can in helping promote and to train lenders on the CalHFA products, and to be involved in the outreach events that involve CalHFA, as well as insurance products.

MS. PARKER: And I think as Greg was saying, one thing we did, we essentially looked at the kinds of insurance products that we have had in the last five years or so. Some of them have really declined in production. One that is most notable is a partnership we had with the state teachers' pension fund. And we had a meeting with them recently, and said, as much as we would like to, their -- they wanted to raise their sales price limits and their income limits, which is really not our goal, custom, or group. And it would have taken resources available, away from us that we could be using in matching with the CalHFA first mortgages.

So we really have gone through, to some extent,
a refocus of our capacity to better serve what we believe is our targeted group.

So with that, if there are any questions on the homeownership side, insurance side, we're prepared to answer.

Mr. Morris?

MR. MORRIS: Yes, on the home mortgage products, you said about 38 percent are the interest only PLUS product. Maybe you can just go through your asset allocation of how you envision where we see 1.5 billion in new products this year. What would be the major loan programs that you think would be the most successful, or --

MR. SMART: Going forward, I would think that the interest only PLUS would represent about 40 to 45 percent of our total loan production, of the 1.5.

The 30-year fixed-rate mortgage would probably -- in this coming fiscal year -- represent about 45 percent as well, or maybe 50 percent, and the remaining balance would be the new 40. That's, you know, just --

MR. MORRIS: How will that work out?

MR. SMART: It's quite early right now to make any intelligent guess as to what we're going to take in. But I think it will probably be overall --
MR. MORRIS: So the interest only and the
30-year are about equal in popularity right now?

MR. SMART: I would say so, yes.

MS. PARKER: Okay, thank you both, gentlemen.

Let me introduce our Multifamily team and have
them come up and do their presentation on our Multifamily
production goals; and that will not only be Multifamily,
but also special lending.

MS. FRETZ-BROWN: Beverly Fretz-Brown, interim
director, Multifamily.

The production goals for next year were being
quite ambitious; and we'll fill you in, in terms of why
we think we can make it.

As you see there, the total production we're
hoping for is about 320 million; and that includes the
Bay Area Housing Plan, of those figures. But even with
or without the Bay Area Housing Plan, that represents
about a 38 percent increase over this year, over our
expected new final commitments.

As you recall from the midyear meeting, the
Multifamily division this year has been concentrating on
closings. And by the end of this fiscal year, we will
have closed approximately 450 million dollars' worth of
loans. It's been an incredible effort. It's three times
the number of closings of last year. And last year was
our highest closing.

So with a great concentration on closings, with at least part of this year, a poor interest-rate market for us, and with very, very significant competition from the private market, particularly on the construction loan side, we've had a real dip in our production. We want to reverse that, and we're committed to reversing that. And we believe the new products that we are proposing to you, or at least giving you a heads-up that this is what we're looking for, and coming forward for you in the business plan in May, that we are confident that with these new products and some internal changes and processing of the Agency, we'll be able to get up to that loan production expectation that's before you today.

The first new lending program we'd like to talk about briefly is what we call our 30/15. And Ed Gipson is going to describe that briefly.

MR. GIPSON: Yes, it's part of the new permanent loan program. Basically, historically, we've had a 30-year amortization on our permanent loans with no right to prepay. And more and more difficulties, the reality is particularly with these tax credit deals, that after you're 17, something has to be done to recapitalize the project or get your equity investor out of the deal. And so trying to meet the balance of both worlds, we've tried
to work through all the details to provide the 30-year amortization, but prepayable after year 15. So that for those who need to get out, now have the option and a way to do so; and those who want to maintain their fixed-rate mortgage for the life of the loan, they can now stay. And there seems to be quite a bit of excitement about that. So we try to meet the difficulties and provide the flexibilities needed to the borrowers, and then maintain our traditional rates.

The second piece that's right behind that -- and I'll just tag right onto the -- is the architectural review. We've had years and years in different processes; but parts of the manual and things are rather old now. So we are currently in the process of identifying what is now important to us.

One of the things we're actually going to look for and provide better and more clear detail to everyone out there, is what those issues are. And the things that aren't our issues, we're going to stop --

MS. FRETZ-BROWN: Reviewing.

MR. GIPSON: -- providing the review over those.

So that, let each group manage their piece; but just focus on the pieces that are most important to us. And in addition, as part of that, we're actually going to reach out. So we're going to go through -- we're doing
our research with other HFAs and other groups out there. We're talking to the architects who design these deals. We'll start with architects who we know more familiarly and are friendlier with, and we'll work with those who have had issues in the past, to actually get their input. In addition, we will talk to the engineers and we will talk to the developers as we incorporate this scope. And once we get all that down, as well as talking to our internal staff -- and once we get all that down, we will go out and talk about, you know, how we got here and what this is all about and what we hope to accomplish by it; and also help to provide basically a resource and an understanding to those out there in the community. And we see a great deal of Multifamily deals. A lot of deals.

(Jan Boel entered the room.)

MR. GIPSON: And we have a great deal of information about common things that happen to each of these deals.

And so perhaps from all of this, you'll be able to get the value input of things that will help build the building for less money, avoid costly construction errors, and have materials involved inside the project that actually have a longer life, probably the same basic costs as you would have had, anyway, but, actually,
providing operating efficiency. So we look at providing
a valuable resource.

MS. FRETZ-BROWN: Thanks. Predictability and
value are really the touchstones for the changes that
we're proposing in the architectural review process. And
as I mentioned before, this is a huge activity, and I
really commend the staff for taking it on with great
vigor.

The second new product that we are proposing, we
call -- really, for lack of a better term -- an AHP
substitute. But it really is that.

One of our nemesis in construction lending has
been the Agency's inability to access the Affordable
Housing Program funds of the Federal Home Loan Bank
System, and which puts us at a pretty significant
disadvantage in construction lending, so -- which is why
the AHP funds are typically brought in, for good reason.

We can't compete on a dollar to dollar,
forgivable-loan basis with the Federal Home Loan Bank's
program, but Laura will describe for you what we think we
can do to get ourselves to be more competitive in that
construction loan market.

MS. WHITTALL-SCHERFEE: I'd like to start by
saying that we hope to come up with a little bit snazzier
name than "AHP substitute." But it is very descriptive
of what we're actually trying to achieve.

We know that in addition to the changes that
Edwin already discussed, that one of the issues is we
need to come up with a program that is similar or
substitutes for AHP.

We're still working on the general parameters,
but some of the things that we're looking at include
becoming a residual receipt lender on the AHP program.
We feel that that's critical. We can't expect this loan
to be a second mortgage with fixed payments. So we're
looking at something that's along the lines of a
$5,000-per-unit loan, up to perhaps a $375,000 cap with
an interest rate, unlike AHP, of approximately 3 percent.
That would be using HAT funds, as we've talked about;
but we also have an opportunity to perhaps use Agency FAF
funds. And that will maybe help us make this rate a
little bit more competitive. The 3 percent seems to be
something that is achievable.

In addition, we would be a residual receipt
lender, and we would be a junior -- in a junior lien
position. We would step away from requiring that we be
senior; and we would just be repaid on a pro rata basis
using our residual receipt loan and comparing it to other
residual receipt lenders. And that is probably the lien
position that we would be ready to accept as well.
Whatever is commensurate with our dollar amount, compared
with everybody else.

The goal is to use these three changes to make
our construction lending program more attractive. And
even though I gave you parameters, like interest rates
and dollars per unit and anticipated maximums, we really
expect to come back to you in May with something a little
bit more concrete. Because one of the things that we're
doing is, we're talking and working with our Finance
Department, to make sure that while trying to create
programs that make us even more competitive, that we're
not walking away from money that we shouldn't be walking
away from.

If this -- it's a 30-year loan. It's
anticipated to be a 30-year loan; but it would tie in to
the permanent loan, in that it would be either 30 years
or paid when the permanent loan that we make is prepaid.
Because the expectation is, there will be a minimum
permanent loan amount that is required to take advantage
of this AHP substitute program.

MS. FRETZ-BROWN: So that's the balance that
we're still working at in terms of a significant
incentive, but still maintaining the Agency's
profitability in lending.

Thank you both.
And we're very hopeful. We've had a lot of discussions with nonprofit and for-profit agencies, with intermediaries and consultants; and we think that these are two sound products.

Do you want me to start with the homeless stuff?

Or do you want to --

MS. PARKER: I'll do homeless.

I think, as I mentioned earlier on, I talked to, several times, about the Governor's Homeless Initiative Phase I. And clearly that's one that Judy Nevis is well aware of because HCD is really the major partner with CalHFA and the Department of Mental Health in implementing this proposal with the use of Prop. 46 funds, MHP funds, and also through the Department of Mental Health, some of their Prop. 63 funds.

In developing the Governor's budget going forward, there was a discussion about trying to continue the work in the area of homeless. And right now, the homeless initiatives are really coordinated out of the Governor's Office of Planning and Research. Jan Boel, who is representing Sean Walsh today; and Sean has talked about it at a couple of our Board meetings.

But there were some further discussions about homeless programs, particularly because with the passage of Prop. 63 in November of 2004, the father of
that initiative, Darrell Steinberg, has been talking at
the committees, oversight committees of Prop. 63 about
the utilization of Prop. 63 funds for creating permanent
housing for chronic mentally ill. And so we have had
some internal discussions between the Department of
Mental Health and the California Housing and Finance
Agency about the ability to see if we could produce some
kind of a model to take advantage of these funds. And a
proposal has been put together for consideration by the
Governor's office. And we're at that point in time for
the Governor's office to be making a decision about
whether or not to announce this initiative.

So I've put it down here because it certainly
would be a major workload and add to our production, but
also add to the degree of complexities and difficulties
of what the Agency would be trying to run and administer.

And, you know, some of that will fall into the
discussion of other considerations, at the end.

But I do want to let you all know that it is
something that's being talked about. And if it is likely
to occur, what I would propose to do at our next Board
meeting in May, is to -- we've thought about doing it
now -- but to ask Darrell Steinberg and our other
colleagues to actually come and chat a little bit about
it, because it would be really a fantastic initiative.
We're talking about the opportunity, if we're able to do this, to create in the next 20 years over 10,000 permanent units of housing for chronically mentally ill, homeless.

MS. FRETZ-BROWN: That's huge.

Okay, thanks.

That's hard to follow.

The Multifamily Division at CalHFA also supervises a number of the special-lending programs that are discussed in the slide.

The first one to this, obviously, is the continuation of the HELP program. This is a loan program, two localities, for a variety of low- and moderate-income housing. Overwhelmingly, about 90 percent of those loans to localities go for rental housing that are very low-income households.

Just briefly, to date, the HELP program has lent about $138 million to 97 different cities, counties, redevelopment agencies, and housing authorities throughout the state, which expect to produce 17,300 units. Again, 91 percent of them actually are multifamily. Very affordable units.

It has been an extremely successful program.

We're looking forward to the repayments under that program -- they are ten-year loans -- so that it can be
self-supporting in the future, versus sustainable —
self-sustainable, like I say, in the future.

So, clearly, we are very interested in
maintaining the volume of HELP activity, and are
proposing the business plan not be maintained at
50 million a year.

The second one, the Habitat for Humanity
program, was a brand-new one this year. We put out our
first notice of funding at the $5 million level. And
this is a purchase program. We purchased seasoned
Habitat loans under some very favorable conditions, where
the local affiliate of Habitat International can
repurchase those loans. If something goes bad, they can
pay on those loans for a year before repurchase, or they
can find a substitute borrower who assumes the loans.

The Agency under this program would also do the
servicing for the local Habitat affiliate.

What this purchase program does, obviously, is
give the local affiliates capital that they typically
didn't have available. And so it's a very significant
part of any capital campaign.

In the first round of funding, we received loan
purchase requests for approximately 2 and a half million
dollars. We expected more. We are contacting other
affiliates. And for a variety of reasons, some wanted to
take a little more time in trying to figure out whether and how much of the loans they would like to be available for purchase. Others are really waiting until their capital campaigns come in the future. So we think this is a very good start.

It's an important partnership as well, with a significant element of nonprofit community.

The third program is new. We talked a little bit in the midyear board report, and that's the Residential Development Lending program. This is one where we're using 75 million of Prop. 46 funds that were originally designated to CalHFA for Mortgage Insurance. Actually, it was, I think, about 86 million; but 75 million basically was remaining. And it wasn't quite working as one would anticipate.

So those funds could roll over into what we call "Residential Development Loan Program." And they would be for loans to stimulate ownership housing that's affordable to low- to moderate-income folks in urban infill areas.

After a number of meetings and discussions with housing developers, as well as with local government officials, the program that we're considering -- and it will come forward in the business plan in May -- is a loan to localities patterned after the HELP program. The
| maximum loan being somewhere around $4 million, with a |
| four-year term. The purposes would be acquisition and |
| related predevelopment expenses. Again, ownership |
| housing, infill areas, it can be condominiums as well as |
| fee-simple properties. And there would have to be a |
| minimum percentage of those units in a development that |
| would be affordable to no more than 120 percent of area |
| median income. |

And with that loan also would come a reservation
of our Down Payment Assistance funds. So our goal is to
make available $10 million. Upon this program's approval
in May, our goal would be shortly thereafter, to make
available $10 million by the end of May, the beginning
of June. And the program would be let out at the same
time as the HELP program, so that these two programs for
localities would basically be run -- would have parallel
tracks.

Again, as in the HELP program, we certainly
intend that these funds be revolving loan funds. And so
that ultimately our investment of HAT and Prop. 46 money
will revolve back and create a certain sustainability to
maintain these programs over time.

MS. PARKER: Just to add to what Bev is saying,
and to make sure that we foot and cross foot; we're
proposing a $15 million level of the Residential
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Development Loan Program, so that our programs to local partnerships would be $30 million, in totality.

MS. FRETZ-BROWN: Thanks.

MS. PARKER: Are there any questions for Bev on any of the areas of Special Lending or Multifamily?

MS. NEVIS: I just had one question, and that is the four-year term, is that the idea that then some other financing will be found or --

MS. FRETZ-BROWN: Oh, absolutely. We -- the conversations we've had with developers in localities is that this up-front money with acquisition is the toughest. And in many instances, the localities will put in their money. Our money could help reimburse for some of those costs, but basically it would keep those projects moving more quickly. And so we see this for acquisition and predevelopment. And it clearly would be taken out --

MS. PARKER: The idea would be in that particular case, that when the units are sold, they would pay back all the instructions, land -- all those different costs.

MS. FRETZ-BROWN: That's right.

MS. PARKER: Carol, I can't believe you're not going to say something about the changes in our term.

MS. GALANTE: I was just going to ask you -- I
don't have any questions. I have all kinds of comments
on a number of these programs. I was kind of waiting
until the end to comment, because I have -- and they're
all positive comments. So whenever you're ready for
comments.

MS. PARKER: Well, I think for now -- and,
again, you know, whether you do it individually or we do
it all at the end -- because, I mean, it is a zero sum
game of where we put everything. And we'll finish, and
then you can decide. But I think we are very, very
excited about what the Multifamily staff has come forward
with. And clearly, it's our intention to make sure that
the Multifamily community knows CalHFA's and the Board's
commitment to Multifamily.

So we can bring people up, if there are more
questions.

But then let me switch and bring in -- have
Chris Penny come up and talk about Asset Management.

Many of you may or may not know, but Chris Penny
is Margaret's second in command, and Margaret has had a
family emergency.

So, Chris, if you want to walk the Board
through -- because we have $4 million of HELP fund
committed to -- or Housing Assistance Trust funds
committed to Asset Management goals.
MR. PENNY: Yes, good morning. In terms of the HAT loans that are set aside for Asset Management, what our thinking is, is that as the Agency is in its thirty-first year, we have quite a few projects that are getting older, they're aging.

And typically, between the fifteenth and twentieth year, projects need to be recapitalized, to various degrees. And we have found in our portfolio that we have a handful of these that we're trying to focus on, assess their physical needs, and try to set aside some of the HAT funds for rehabilitation, things that the projects are unable to accommodate in the normal replacement reserves that we require. So that's a big goal of ours for this year, in addition to continuing our contract administration for our approximately 150 Section 8 projects that we work with HUD. That work brings in about $1.5 million a year in Section 8 administrative fees from HUD. And that's a major part of our staff's time.

A special project that we're working on right now, and hope to finalize and complete this year, is the sale of our REO portfolio. We have six REOs around the state. One of the REOs is being taken out of this current offering because of some fire damage that the project suffered recently. So we currently have five
being offered, and we have a broker that is helping us
market those properties. And hopefully by the next Board
meeting, we might have some more information on that.

    MS. PARKER: If there's any questions of Chris?

    (No audible response)

    MS. PARKER: If not, I'm going to move to our
last slide, which is "Other Considerations."

    Thank you, Chris.

    MR. PENNY: Yes.

    MS. PARKER: And I would ask Steve and Bruce if
he'd come back and join me.

    Mike?

    I will just segue, given Chris' comments on the
REOs, it does present an opportunity for the Agency to
look at what might be an initiative for the corpus of
those funds.

    And Steve's going to talk a little bit about
that.

    MR. SPEARS: Well, we're starting the process of
looking into putting all of our employees in Sacramento
under one roof. As you probably know, we're in the
Meridian Building, we're also in the Senator Hotel. Both
those leases expire simultaneously, so the good planning
of our administrative folks, and that occurs in about
three years. And so the idea is to try to get everybody
under one roof.

We're starting this process. We're going to have some consultants help us sort through the issues and help us sort through the numbers, the economics, of build and buy versus lease, and that sort of thing.

And there are a number of different ways to finance it. At present, bond financing requires some legislative changes. There's REO sale proceeds that might possibly be used towards this sort of thing.

And, of course, you could use something on the order of long-term tenant credit lease. All those things are being sorted out at this point.

We just wanted to alert you to the fact that this is on the horizon. It's a really important project for us because we really would like to have those in Sacramento under one roof. And it will avoid colds and the flu by trooping back and forth from the Senator and the Meridian building, if nothing else.

MS. PARKER: Some of you who have been around CalHFA for many, many years, and when it was CHFA, the prior Executive Director, Karney Hodge, actually considered the purchase of the Senator Hotel. And, you know, that may be a little bit like people's comments about some of our other elected officials who have had visions of, you know, getting satellites and being a
little bit ahead of their time. But I think it is
something that we now want to take a look at and see from
an economic standpoint if it makes sense.

Michael, are you going to do the IT?

MR. HOWLAND: Yes, my name is Mike Howland; and
I'm the Director of Information Technology for the
Agency.

During the last year, the Agency has engaged in
some very extensive reviews of our IT organizational and
technology infrastructure, and also the technologies that
support our various business operations.

As a result of those reviews, we have initiated
several efforts to upgrade -- update, if you will -- our
organizational and technology infrastructures, as well as
actually initiating several projects to address the
future technology needs of our program areas. Among
those, are the one that's on the slide, which is to
service debt management. But we've also initiated
projects for Multifamily, Homeownership, and Fiscal
Services as well.

We have a lot of very interesting and
challenging Information Technology initiatives that are
going on in the Agency right now.

MR. GILBERTSON: Pass the microphone around
here.
The third bullet there, or arrow, relates to product profitability. That was an outgrowth of this Resource Allocation Study that we did during 2005.

There were two things that came out of that, that we wanted to spend additional time on: One was to make sure the Agency had adequate capital that could be placed in reserves for rating-agency purposes. Because many of the real-estate-related risks in our programs are set aside -- we set aside specific amounts of capital for those purposes. So we're underway with that process.

The other thought that came about, was that we should analyze a combination of loans that we put together into a product, be it for Homeownership purposes or Multifamily purposes.

My staff and I worked on that, and we had our first meeting about that -- I would guess about a month ago. We looked at two or three combinations. We need to do many more combinations, to look at the profitability.

The initial results were -- and I don't think it would be any surprise -- that we make more money on a long Multifamily project, one that's out there for 30 years, than we do on a single-family Homeownership loan with today's prepayment speeds is only around for three, four, or five years.

On top of that, we wanted to layer on the
operating expenses of the overhead of the Agency to
initiate that product and to oversee that loan or product
over its lifetime. So that's an ongoing initiative that
we have.

Of course, at the end, we will be measuring
product profitability versus public purpose benefit,
trying to find the right balance for all of our programs
going forward.

Oh, the next one is mine, too.

The investment management strategy is something
that we've been talking about. The Board of Directors
established an investment policy for this Agency, I'm
guessing it's ten or twelve years old by now. I think
what this really relates to is that we want to go back
and revisit that policy. That policy really documented
what we were doing at the time. And primarily our
investment strategies have been to use the State
Treasurer's investment pool and to go out for bid for
guaranteed investment contracts, when we issue bonds.

I think in today's day, it ought to be a
broader -- we ought to look at different investment
alternatives. We ought to perhaps segment pieces of the
balance sheet and say that maybe we can go longer on the
yield curve, perhaps pick up a couple of additional basis
points.
So that's something that I would think, over the next 12 to 18 months, we'd come back before the Board with a revised policy and perhaps an investment management strategy.

MR. SPEARS: For Bill's benefit, part of that process will be coming over to talk to Dan Dowell and the staff, and really explore this. Because there are a lot of different ways to do this. We could have something separately managed over there or farm something out. But there's a lot yet to be studied about it.

MS. PARKER: Mr. Morris?

MR. MORRIS: The comment would be, 12 to 18 months where you have the investment management strategy, I think that's really important. And I think maybe that's something that we ought to try to accelerate and not wait 12 to 18 months to address that.

MR. GILBERTSON: I was giving myself a pretty big cushion.

MR. MORRIS: We'll be off the Board by then.

ACTING CHAIR SHINE: Of course, you noticed.

MR. GILBERTSON: There are two aspects to it, and I didn't bring up the other, is that we can certainly revisit the policy, that's the easy part of it. We also, as a part of the IT initiatives, would like to build some additional tools for us to better manage cash and
investments within the Agency. And they do at some point kind of tie in together.

MR. MORRIS: Maybe we could --

MS. PARKER: Yes, I think the point here is that we're starting in this business plan when we come back to you and talk about our operating expense. We're building, you know, these things in -- you know, we're starting now to essentially add them into our overall management information infrastructure. So we will -- to the extent that resources permit, which will segue into my next discussion, you know, it's certainly -- we are self-motivating ourselves on all of these kinds of enhancements, because we think that they are crucially needed to manage the complexity of the funds that we have, and certainly be available for the Board for your decision-making process.

MR. MORRIS: Would it help you, as you develop these tools, to review the investment -- to review these management -- excuse me, the investment management strategies earlier, so that that can be part of the input, as they are developing the tools? In other words, I just think that that's something we should address earlier.

I understand the need to coordinate that with the tools that you're developing, but I think it's
something we should address earlier.

MS. PARKER: I think we'll come -- let's take
that feedback.

Again, what we're looking for from you today
really is the feedback for where we should prioritize and
concentrate. So these are all very helpful discussions
to us.

Let me bring up the last line item here because
in some respects it is the most significant item to
everything that we have talked about in the last 15, 20,
30 minutes.

You will see at your seats that our most recent
rating agency analysis from S & P is on our G.O. bond
capacity, and it's a very good rating. We've always, you
know, had very good rating analysis, very comprehensive.

If you read through the paragraphs on
management, you will see that this is the first time,
although the rating agency, S & P congratulates us on the
competency of our staff -- and I would say, you know,
with the loss of some of the significant people we have,
the corpus of people who are here today in the Agency are
doing outstanding work. But it is really -- is that
enough, given the complexity and the degree of difficulty
that we have before us?

And if you read that paragraph, you will see
that the rating agency makes a notation about the loss of
our staff and the need to recruit and retain and the need
to be competitive in the market that we have to recruit
and retrain from. And the problems that we have to be
competitive, given our compensation that is dictated in
the state and our Agency by the Governor's office and the
Department of Personnel Administration.

We have talked to them -- in fact, Steve, as I
mentioned, his paperwork is over at the Agency -- the
Governor's office, and it has been since November. And
the reason why -- it's not that they don't know Steve and
want to hire him, but it is a salary issue that we are
debating about. And the recruitment of the Director of
Multifamily, the Director of Mortgage Insurance and the
Director of Homeownership are all going to be based on
what compensation.

We have hired a recruiting firm to help us. The
recruiter has essentially told us that the existing
salary that we have to offer will not provide the level
of competency that we need.

So we are in a discussion right now with the
Governor's office about whether or not we can continue
to do the kinds of complexity of programs we had done in
the past, and what will be our future.

Now, we have combined this at the moment with
this initiative of Homeless Phase II. And, in fact, we have told them in order to be able to implement that program, even though some of it's special-need funding, some of which we have done in the past, that we do not have the resources in the Agency to run that program unless we can go out and hire them.

And so we have negotiated and talked about legislation that we would need not only to set that program up, but also legislation to allow us to have the flexibility to have those salaries be set, based on some survey of our marketplace in order to be able to get the kind of competent people, and offer the rating agencies the security of knowing that that kind of competency would be in the Agency over the long run.

I do want to embarrass him a moment and point out Stan Dirks being here from Orrick, our Bond Counsel. Stan has worked on this initiative with me and particularly helped us craft what would be an initiative on the homeless side, but also what we would need on the compensation side; a structure that would allow the Governor's office to have involvement, but the salaries would be set by the Board based on salary survey methodology approved by the Department of Personnel Administration.

So I tell you all this because we have put
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before you a business plan that is presumed we will be able to hire the people that can run these programs.

If we do not have those, then we will be coming back to you in May with something that will be completely different than this. It will have substantially plain vanilla Multifamily kind of lending programs, and substantially reduced Homeownership lending programs, because we will not have the people to keep developing these kinds of innovative programs in the marketplace and deal with the -- particularly the credit controls that we'll need in order to maintain the risk of the Agency. So I want to leave that with you.

We have presented the happy scenario, because that's what we feel we need to do. But at some point in time, I need to -- just for the Agency to continue -- deal with the reality that if I don't have those kind of staff, what the rating agency's analysis will be on us, and what we can actually produce for our borrowers and our partners, you know, in the housing industry.

ACTING CHAIR SHINE: Thank you very much.

And kudos to all of you. It's a wonderful presentation. It gives us a good under-an-hour thumbnail sketch of the future, potentially. And very complete. And thank you.

Any comments or questions or ideas from the
Board?

Yes?

MS. GALANTE: A couple of comments.

I think this was an incredibly thoughtful plan that you all have outlined, and clearly it has taken a lot of internal conversation and evaluating where you are and where you want to go to make all this happen. And I just think some of the ideas that I've seen are really great.

I want to say that the HELP program has been fabulous. I don't know how long now it's been around, Terri; but I --

MS. PARKER: I think we're seven years?

MS. FRETZ-BROWN: Eight years.

MS. PARKER: Eight years.

MS. GALANTE: I would be remiss if I didn't say I was at the California Redevelopment Association annual awards luncheon yesterday in Monterey, where our Mandella Gateway project got an award that has CalHFA financing. But I think probably four of the various categories had HELP financing, because they list kind of all the financing at the bottom. It's a very well-used program. And I think adding that residential for the for-sale component is just absolutely right on. I think communities are going to love it.
I think the AHP substitute, my comment is, I wish you could be the Federal Home Loan Bank and do a real AHP substitute. I think the idea of it in terms of adding to your business is really great.

(Mr. Morris left the hearing room for the day.)

MS. GALANTE: I would say, I would caution not to emulate or mirror some of the problems that exist in the AHP program. Because we have gotten to a point where we didn't really want to use it anymore, because for the small amount of money, the amount of requirements put on you by the Federal Home Loan Bank -- you know, empowerment-this and, you know, services-that is just so over the top, it's not worth $300,000. So you have to be really, really desperate at this point to take AHP.

So I think if you can find a substitute program without all the headaches, it will be a real competitive service. So I just want to add that.

So there's a lot of other things here that you mentioned that I think are great.

And my last comment is, if there's anything that we as a Board need to do to help you on this competitiveness, then, you know, I'd love to hear that. Because I do -- as a nonprofit leader, I face some of the same challenges. And I just think this one has to be solved for the Agency to be effective.
MS. PARKER: I agree, Carol.

You know, I've told everyone that I think that this -- we have done everything that we can, and we have been very fortunate in the recruitment that we've done in the last couple years. But we have just come to a point in time where we've hit the wall. And we have to solve that now, particularly because, you know, we have to provide predictability in our marketplace.

We have been very fortunate with having, in the interim, Bev Fretz-Brown work for us and continue our efforts in the Multifamily side. But Bev did this as a favor, and committed to only a few months. So we're going to be losing -- and we don't have the ability to hire staff on contract to do, you know, the day-in and day-out work. So if we can't solve the salary problems, we will change the business that we do. And part of it is just flat-out an education process. There is a lot of people who work in state government, they don't really understand what we do. They think we're the same as the Infrastructure Bank. They think that we're the same as, you know -- they don't understand that we are not backed by the full faith and credit of the State. And so it's really the investors who we report to, not the taxpayers who pay our salaries. But the problem is that state salaries are not competitive.
And, you know, when we look at our salaries relative to our sister housing finance agencies and the rest of the country, my colleagues have told me that they're behind me because California is bringing down the overall averages considerably. And yet you look at where we are relative to them. We're at the top of complexity with the number of outstanding swaps we have, with the -- you know, we are a $9 billion financial institution.

So we're going to see, and you can all keep us in your prayers; but I think what we're trying to do is make the education, make the best comments that we can. And also, you know, what we have done is certainly demonstrated on the merit.

Nobody else in state government could have done the Bay Area Housing Plan. You know, we're saving the State of California millions of dollars in programs for the developmentally disabled because of CalHFA. The Infrastructure Bank couldn't do that.

So, again, we need to hear: Are we on the right track with what we're proposing to use our HAT funds for? Anything -- you know, I've talked to John Courson, who last year wanted to amend so that we had more money for HELP, and he signed for this amount of money. But if you guys are, you know, taking into consideration the comments of Mr. Morris and Ms. Galante, we'll come back
and we'll be preparing a business plan that will further
be built on these premises, unless I have to come back
and essentially give you something that will change,
given the realities of the internal resources that the
Agency has.

ACTING CHAIR SHINE: I would venture to say that
given what we've heard here today and the few comments,
that everybody kind of would like to see you get to the
next step on this program.

Am I speaking out of line? Is everybody here on
the Board okay on that? Okay.

MS. PARKER: I think our real concern is that we
really hate to -- and that's why we haven't done it -- to
bring you an alternative business plan. I thought about
it: Should I bring it, too? I think we're in denial.
We don't want to do that.

But I think we recognize -- and you all are very
mindful -- once we get out of the competitive lending
market, even if we were to get, a year from now, the
ability to hire people, it will take us so long to get
back in. So that's my biggest fear.

With that, Mr. Chairman, I think we think move
on to the final portion of the meeting, which is the
closed session.

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Item 7. Reports

ACTING CHAIR SHINE: Okay, there's some reports as part of your public package, if anybody has any questions on that.

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Item 8. Discussion of other Board Members

Item 9. Public Testimony

ACTING CHAIR SHINE: Is there any other discussion for the Board before we go into private session?

(No audible response)

ACTING CHAIR SHINE: Okay, then we're going into closed meeting now.

MR. HUGHES: We have to have Item 9, which is Public Testimony, just to make sure that there isn't any out there.

ACTING CHAIR SHINE: I think I just asked them for that, and nobody said they wanted to speak. So that's why I decided it's okay to go into closed session.

MR. HUGHES: That's fine.

ACTING CHAIR SHINE: Am I incorrect?

MR. HUGHES: No, that's fine. I just wanted to confirm that.

I did want to put one comment on the record before we go into closed session. We don't transcribe
the closed sessions, and I wanted to make sure this was on the record.

We have two different matters to discuss in closed session. The one that's listed as number one, California Housing Finance Agency v. Gateway Apartment Partners, is not a matter that's come before the Board before. I wanted to say that there is a conflict of interest issue that is involved with this, perhaps indirectly, but that we worked on extensively.

The owners of that project, Gateway Apartment Partners, are the Agency's borrower. Adjacent to that property is a property owned by BRIDGE Housing, which, of course, Ms. Galante is an officer of.

And BRIDGE has no involvement with Gateway Apartment Partners or the project, the Ridgeway Apartment Projects. However, the reason that this litigation exists, is that there are construction defects on the Ridgeway Apartment side.

The BRIDGE side -- different parcels, different borrowers, different owners. The BRIDGE side was constructed at the same time and shares some of those construction defects. And there has been construction-defect litigation pending in Marin County Superior Court, in which both BRIDGE and Gateway Apartment partners have participated. Those cases were
consolidated.

So I have discussed the potential conflict issues extensively with BRIDGE's attorney. And as a result of that, Ms. Galante has scrupulously avoided any participation in the Ridgeway controversy from the BRIDGE side.

BRIDGE was also proposed to be a potential manager or a potential owner of a new entity that would acquire Ridgeway. That's now off the table.

I wanted to mention that I have advised Ms. Galante today that I do not think that there is -- because there is no action to be taken, nor any action contemplated to be taken by the Board in this case, I don't think there is a conflict of interest in terms of attending the closed session, nor do I think there's an attorney-client privilege issue that would be seriously implicated.

My understanding from talking to Ms. Galante is that she has elected not to attend the portion of the closed session part of the session regarding the first matter, the Gateway Apartment Partners, and will attend the other part, relating to our HC case.

So my request is that we take those in reverse order, so that we can deal with the second one first, and then have Ms. Galante leave.
Does that correctly state -- it's long-winded.

MS. GALANTE: Now that you've heard the whole thing. Yes.

MR. HUGHES: But I wanted to make sure that was on the record, to make sure it was clear to everyone what sort of the underlying ground rules have been on this.

And I think with that, we can go into closed session.

---oOo---

Item 10. Closed Session

(Closed executive session was held from 12:03 p.m. to 12:32 p.m.)

ACTING CHAIR SHINE: We've reconvened out of executive session; and we've adjourned the meeting.

(Proceedings concluded at 12:32 p.m.)

---oOo---
REPORTER'S CERTIFICATE

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

That the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

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

In witness whereof, I have hereunto set my hand on March 14, 2006.

Daniel P. Feldhaus
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

---oOo---

BOARD OF DIRECTORS
PUBLIC MEETING

---oOo---

Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Thursday, March 9, 2006
9:32 a.m. to 12:32 p.m.

---oOo---

Reported By: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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Certified Shorthand Reporters
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(916) 682-9482  Fax (916) 688-0723
FeldhausDepo@aol.com
Board of Directors Meeting held on March 9, 2006

APPEARANCES

Board of Directors Present

JACK SHINE
(Acting Board Chair)
Chairman
American Beauty Development Co.

CURT AUGUSTINE
for Sunne Wright McPeak
Secretary
Business, Transportation and Housing Agency
State of California

JAN BOEL
for Sean Walsh
Director
Office of Planning and Research
State of California

CAROL GALANTE
President
BRIDGE Housing Corporation

JOHN G. MORRIS
President
John Morris, Inc.

JUDY NEVIS
Acting Director
Department of Housing and Community Development
State of California

THERESA A. PARKER
Executive Director
California Housing Finance Agency
State of California

WILLIAM J. PAVAO
for Phillip Angelides
State Treasurer
State of California

--o00o--
Board of Directors Meeting held on March 9, 2006

APPEARANCES
Continued

CalHFA Legal Staff Present:

THOMAS C. HUGHES
General Counsel

JOJO OJIMA

--oOo--

For the Staff of the Agency:

GREG CARMER
Interim Director
Mortgage Insurance

BEVERLY FRETZ-BROWN
Interim Director
MultiFamily Programs

EVAN GERBERDING
Assistant Director
Marketing

KENNETH GIEBEL
Director
Marketing

BRUCE GILBERTSON
Comptroller

EDWIN C. GIPSON II
Chief, Multifamily Lending
and
Director, Culver City office

MICHAEL HOWLAND
Director
Information Technology

TINA ILVONEN
MultiFamily Programs
APPEARANCES
Continued

For the Staff of the Agency:

JIM LISKA
MultiFamily Programs

CHRIS PENNY
Asset Management

KATHY WEREMIUK
Multifamily Loan Officer

LAURA WHITTALL-SCHERFEE
Chief of Lending
MultiFamily Programs

GENE SLATER
Asset Management

GERALD SMART
Chief
Homeownership Programs

--000--

Also Present

STANLEY J. DIRKS
Orrick Herrington & Sutcliffe, LLP

GABE GARRETT
Bank of America

MORGAN T. JONES III
McDonough, Holland & Allen, PC

GABRIEL D. SPEYER
Vice President
Community Development Lending
Bank of America

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Daniel P. Feldhaus, CSR, Inc.  (916) 682-9482
Board of Directors Meeting held on March 9, 2006

BE IT REMEMBERED that on Thursday March 9, 2006, commencing at the hour of 9:32 a.m., at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

--000--

(The following proceedings commenced with Jan Boel absent from the hearing room.)

ACTING CHAIR SHINE: Well, it's time.

Good morning. I would like to call the meeting to order. My name is Jack Shine. I am a fill-in. Our chairman had some business matters which made it impossible for him to be here this morning, and he asked me if I would fill in at this session, which I am doing here. So there you have it.

--000--

Item 1. Roll Call

ACTING CHAIR SHINE: Do we want to do a roll call first?

MS. OJIMA: Yes. Thank you.

Mr. Pavao for Mr. Angelides?

MR. PAVAO: Bill Pavao for Treasurer Angelides.

MS. OJIMA: Thank you.

Mr. Carey?

(No audible response)
Board of Directors Meeting held on March 9, 2006

MS. OJIMA: Mr. Czuker?

(No audible response)

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Here.

MS. OJIMA: Thank you.

Ms. Galante?

MS. GALANTE: Here.

MS. OJIMA: Mr. Augustine for Ms. McPeak?

MR. AUGUSTINE: Here.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Here.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Here.

MS. OJIMA: Mr. Courson?

(No audible response).

MS. OJIMA: Mr. Walsh?

(No audible response)

MS. OJIMA: Mr. Genest?

(No audible response)

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIR SHINE: By the skin of our teeth.

MS. OJIMA: By the skin of our teeth, correct.
Item 2. Approval of the minutes of January 12, 2006,

Board of Directors Meeting

ACTING CHAIR SHINE: Okay, we have minutes of
the January 12th meeting.

I will entertain a motion for approval and any
comments?

MR. MORRIS: So moved.

MS. NEVIS: Second.

ACTING CHAIR SHINE: Any comments from anybody?
(No audible response)

ACTING CHAIR SHINE: If not, all in favor?
(A chorus of "ayes" was heard.)

ACTING CHAIR SHINE: Then I'll go ahead and call
the roll, which -- now, do you see what happens to an
interim?

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Having not been at the meeting, I
was inclined to abstain.

Do you need a vote for the quorum? Then I vote
"aye."

MS. PARKER: Well, the only thing we could do is
move it over to the next board meeting. But we need six
votes.

MR. PAVAO: Then I vote "aye."

MS. OJIMA: Thank you, Mr. Pavao.
Ms. Nevis?

MS. NEVIS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: The minutes have been approved.

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Item 3. Chairman/Executive Director comments

ACTING CHAIR SHINE: Okay, in that case, I would like to make comments. It says "Chairman and Executive Director." But as acting chairman, I have no comments to make. So, therefore, I will not make any.

But I'll turn it over to Terri, who I know has some things that you want to hear.

MS. PARKER: Thank you, Mr. Chairman.

And my grateful thanks to all the Board members who are here today.

If you were not here, we would have a serious problem of being able to do the business of the organization and meet our commitment to our borrowers.
I have a couple of announcements to make.

Certainly, I wanted to introduce Bill Pavao, who has taken Laurie Weir's place in representing the Treasurer. Bill has been known, I think, to many of us at CalHFA because of his long tenure in the Department of Housing and Community Development, where most recently he ran the Multifamily Housing Program. So we welcome Bill.

And we know you'll do a fine job, representing the Treasurer.

The other introduction that I want to make is, as you all know, I have chatted with you about some of the great loss to the Agency of our longtime staff. And with the retirement of Dick LaVergne, the retirement of Nancy Abreu, we have had challenges of filling our director of Homeownership and with changes in the Multifamily area. So at least the first of those four positions we've made some progress on, and paperwork is in to the Governor's office to appoint Steve Spears.

Steve, if you would stand up, so you all know him.

Steve has an outstanding background to bring to the Housing and Finance Agency. He not only has an MBA in business and a CPA, but he also has a law degree.

He was deputy treasurer for Matt Fong, and did the municipal finance side of the Treasurer's office. He's
well-known and respected on Wall Street, and has done consulting in the financial area for the last several years.

So we are very fortunate to have him. We're teaching him how to be a "houser." But other than that, he has a tremendous background to bring to the Agency. So we're fortunate to have him; and you'll be hearing more from him over the next months, if he is with the Agency. And if I'm not available, Steve is the next person for you all to contact.

John asked me, when he said he couldn't attend this meeting, to do one thing, and that is to make an announcement for him. At the last meeting, he talked about his desire to form an audit committee. And in doing so, he has talked to a couple of the Board members to ask them to participate on that audit committee. And he has asked Jack Shine to chair the committee. He has asked Carol Galante and Peter Carey to be members on the committee on a rotational basis, so that we always, you know, are not in a situation where we have all three members coming on and off at the same time.

So Jack's appointment is for one year, Carol's is for two years, and Peter's is for three years.

Since Jack has a dubious distinction of being
the first chair of the audit committee, he will be
working with Tom Hughes, our general counsel, and Dennis
Meidinger, our controller, in developing an audit
committee plan -- a charter -- and will be coming back to
the Board members and talking a little bit about the
activities that they are going to be doing. So I just
wanted to give you kind of a heads-up on that.

We have a very good meeting to talk with you
about. A couple of deals for us to be doing. We're
going to be doing a report on the Bay Area Housing Plan.

A big part of our meeting is to talk with you about
concepts for our business plan, which we'll be bringing
back to you to adopt next May. But I think this is going
to be a crucial time for the way we are going to be
talking to you about the business plan of how we best
want to use our resources, how best we want to
essentially move the mission of the organization, and
also whether or not we will have the resources to do so.

As a little special treat, our Marketing folks
have done some PSAs on the Agency. So before, as an
introduction to our business plan, we're going to give
you a little bit of -- a couple 30-second PSAs about the
organization and the mission that we're doing.

And then last, but not least, we'll have a small
closed session to talk with you about some court
litigation that we're involved in.

So we appreciate you being here, and we appreciate your time and attention to the matters before you today.

With that, Mr. Chairman, that concludes my report.

ACTING CHAIR SHINE: Thank you.

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Item 4. Discussion, recommendation and possible action relative to final loan commitments for three projects:

Resolution 06-09 (Indio Gardens Apartments)

ACTING CHAIR SHINE: I'd like to just then go into the three projects that we have before us today, the first of which is Indio Gardens Apartments.

MS. FRETZ-BROWN: Thank you, Chairman Shine.

I'm Beverly Fretz-Brown, interim director of the Multifamily Housing Programs, CalHFA.

Our first loan commitment request is Indio Gardens. It's a portfolio loan for the purpose of acquisition and rehab.

Laura Whittall-Scherfee, the chief of lending, will be directing the remarks on this program.

Thank you.

MS. WHITTALL-SCHERFEE: Good morning.
This is a final commitment request for Indio Gardens Apartments. Indio Gardens Apartments is an Agency portfolio loan. It's a 151-unit family project. It's located in Indio, which is in Riverside County.

The project was constructed in 1981. It is 100 percent Section 8. It has 100 percent Section 8 subsidy right now, and the renewals expired in 2002.

The request is for an acquisition rehabilitation loan, a Section 8 second mortgage, and then permanent loan financing.

The acquisition rehab loan is in the amount of $4,400,000, at a variable interest rate for 24 months; and the financing is tax-exempt.

The second mortgage, which will go into place at the same time as the acquisition rehabilitation loan, is for 4,800,000. It's comprised of $1,090,000 of earned surplus, and 3,710,000 of tax-exempt financing. It's for 16 years, which is the remaining term of the half, with the extensions.

The permanent loan is in the same amount as the acquisition loan. It's for $4,400,000, at 5.45 percent for 30 years.

There are no other sources of financing.

And with this, Jim Liska is going to explain the project in a little bit more detail.
This is very, very similar in structure to what you saw with Palm Springs Senior, at the last Board meeting. The ownership of the property is going to include Bental, and the actual name of the ownership entity is going to be "Indio Gardens Affordable LP."

Go ahead, Jim.

MR. LISKA: The project is Indio Gardens, located in Indio.

This is a close-up of the aerial. And it's a three-story elevator, two buildings: Building A and Building B.

Right here is the community room. And off to the right here is the office center. The community room will see some rehab, as far as updating.

The project was built in 1981. And overall, it's in our portfolio, and it is in pretty good condition; but we will be doing approximately 1.9 million dollars' worth of rehab. We're at 12,000-plus per unit.

The roofs are -- basically, they're a foam covering and reflective to help us with the sun, since it gets warm, as you know, down there during the summer months.

We understand the warranty is good through approximately 2012 on these roofs.
Back here, this is a senior project. We have a nice little garden plot where individual tenants can grow various flowers, vegetables, fruits, what have you.

On the back side are apartments. To the right are apartments. Across the street are, again, apartments.

It is gated with security gates and automatic openers.

I think this is one of the better projects I have seen as far as with ADA compliance, since we do have a lot of seniors, a lot of handicapped here.

Off to the left is a seven-acre date farm; and adjacent to that is open land.

This gives you a little bit wider aerial on it. We're looking west, down the street.

At the corner of Monroe and our street is a bus stop. About a quarter mile away in this direction (pointing), just past Highway 101 in Monroe, we have a little shopping center, as far as Rite Aid for drugs, Food 4 Less for our grocery, and approximately a mile away is the hospital.

So all in all, there, the service are all within about a half a mile distance of the project.

This is a view of the subject from Requa Avenue.

Just looking east on Requa.
Looking west on Requa.

This is an interior view of the grounds, property. The landscaping is very nicely done, well-maintained, well kept up. And we have a little bit of rehab to do, some ongoing work there.

A typical kitchen.

As far as interior unit amenities, we are going to be seeing new cabinets, new appliances. Flooring for both the bathrooms, carpeting, paint.

This is a typical unit interior.

We can digress a little bit on this one.

Again, those that were here in January for Palm Springs, we have our Section 8 exceeding the market rate. It's 862 versus 725.

Again, we have a 16-year half contract remaining. And in the cash flow for the first six years, two years' worth of rehab plus the first four years of amortizing, we have flatlined it. We have not trended those rents until -- for the Section 8 -- until such time as the market catches up with the Section 8, then we are permitted to go back to HUD to get our annual increases.

With that, I'm open for questions.

ACTING CHAIR SHINE: Questions from anybody?

MS. GALANTE: I have one.

I wasn't at the last meeting, so I didn't --
you're referring to a structure on a previous deal, and I apologize. But is this project being acquired from an existing?

MR. Liska: This project is being acquired from --

Ms. Galante: This is not a refinancing?

Mr. Liska: No, it's not a refinancing. This is an actual sale. And the current owner is selling it.

As part of that sale, since it is in our portfolio, this property, based on yield maintenance, the seller of the property will be paying a 1.6-some-odd million dollars prepayment penalty to us.

Ms. Galante: So is that the earned surplus?

What's the earned surplus?

Mr. Liska: The earned surplus is from our own funds, and it's to supplement and use, since this is a pre-80 project, the project can have surplus funds, in addition to our own tax-exempt financing.

 Acting Chair Shine: I have just a question here.

In computing the first and the second, when you add them together, it's $90.2 million.

Mr. Liska: That's correct.

 Acting Chair Shine: So that's like an 80 percent loan based on value after completion; right?
MR. LISK: That's correct.

ACTING CHAIR SHINE: I just wanted to make sure it's still there.

MR. LISK: Yes, it's still there.

Again, the tax-exempt is a little bit less, 8.1 million. And then the $3,090,000 is the HAT earned surplus money, our own Agency's funds. And we have it at 5.45 percent interest rate for 16 years.

ACTING CHAIR SHINE: Okay, any further comments? Questions?

MR. MORRIS: If I can make one comment.

I think it's a great project. I mean, this area is one of the fastest growing cities in the state, and housing prices have increased dramatically in the last several years, just like other parts of the state. So this is good. This is a good project.

MR. LISK: You see the signs going down the freeway at the site. You're looking at three to five hundred thousand-dollar homes.

MR. MORRIS: Right.

MR. LISK: Your observation is right.

ACTING CHAIR SHINE: Okay, all right. Do we hear a motion?

MR. HUGHES: Mr. Chair, just to remind you, before the Board votes on anything, we do have to make
Board of Directors Meeting held on March 9, 2006

sure we've solicited any input or comments from the public.

ACTING CHAIR SHINE: Oh.

Comments from the public?

(No audible response)

ACTING CHAIR SHINE: Hearing none, I'd entertain a motion.

MR. MORRIS: I move.

MR. PAVAO: Second.

ACTING CHAIR SHINE: Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Aye.

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: Resolution 06-09 has been approved.

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Item 4. Discussion, recommendation and possible action relative to final loan commitments for three projects. (continued)

Resolution 06-10 (Seven Directions)

ACTING CHAIR SHINE: Okay, our next project is Seven Directions in Oakland, Alameda.

Are you ready?

MS. FRETZ-BROWN: Thank you, Mr. Chairman.

Laura will also give the comments on the Seven Directions project.

Thank you.

MS. WHITTALL-SCHERFEE: We are having to lean forward into this mike because this is as far as it's going to go. So if we look like we're practically trying to lean over the table, that is why.

Tina Ilvonen is going to help me with Seven Directions. You did receive very late, and I apologize, a substitute page. That substitute page includes the information on the appraisal that we received after this was published, but we wanted you to be aware of what the appraisal was. We are still reviewing parts of the appraisal, but the loan to values are something that we felt that the Board needed to have.

Seven Directions is -- we're requesting permanent and construction loan financing on Seven
Directions. It is a 36-unit infill project with a 20,000 square-foot community-based health care facility in Oakland, which is in Alameda County.

The project will be owned by Seven Directions Housing Limited Partnership, and will include EBA LDC, which is East Bay Asian Local Development Corporation, and the Native American Health Center, Inc. The Native American Health Center, Inc., will be owning and managing the health centers that are part of the project. And we have a long history with the EBA LDC. I think this board probably remembers a couple of projects, Coliseum I was a recent project we brought to this board, as was Coliseum II and III.

The construction loan that is being requested today is in the amount of $8,750,000, at a variable rate for 18 months with tax-exempt money.

The permanent loan will be for $1,600,000 at 53 percent for ten years. This project is going to have 18 project-based Section 8 vouchers provided by the Oakland Housing Authority. And as you saw, we have a large construction loan and a small permanent loan. The reason being, there are a multitude of other sources on this particular project.

There's money from the Redevelopment Agency of the City of Oakland in the amount of $3,289,000 for
55 years at 3 percent, residual receipts. The City of Oakland has two loans, one in the amount of $1,216,000 for 55 years at 3 percent, residual receipts, and then a deferred interest loan in the amount of $93,972 for 55 years.

The Department of Housing and Community Development and the Multifamily Program is for $2,606,331 for 55 years at 3 percent, residual receipts, as well as an SSS loan from MHP, the non-residential space for supportive services, in the amount of $250,399 for 55 years, at 3 percent.

There's also an AHP loan in the amount of $227,368 for 55 years.

And with that, Tina will take you through the project.

MS. ILVONEN: Good morning.

Seven Directions will be located in the Fruitvale neighborhood of Oakland, two miles south of downtown Oakland in Lake Merritt, which is up here, and a quarter mile north of the Fruitvale BART station, which is about four blocks south of this side.

This is a close-up of the neighborhood around the project.

This is the new Cesar Chavez Educational Center, which actually continues another three or four blocks...
north. And this is the Goodwill retail facility.

This is another charter school.

This building here is the Fruitvale Medical Center; and this building here, on the corner of 29th, is a grocery store.

This is a closer-up view of the surrounding area next to the project.

This is a furniture store right next to the project.

On the corner of Twenty-Ninth and International, this is a restaurant.

This is a 16-unit apartment complex abutting the project.

This building back here is the historic Cohen-Bray House, which was built in the 1870s.

Next door here is an IHOP, which is vacant currently.

And this is a close-up of the site, looking southeast from International Boulevard.

This is a half-acre site. It's been vacant since 1976. It was formerly the location of a retail and furniture warehouse building. There was a Phase I and Phase II completed on the project in 2002.

In the Phase I, they had a concern about neighboring properties possibly contaminating our site
with possible leaks from those properties.

There was a Phase II completed, and subsurface sampling was done. Low concentrations of diesel were found, but they were below regulatory levels and they were not required to be removed.

These reports have both been reviewed by our environmental consultant, URS; and they do not have any further recommendations for further investigation. There will, however, be a Phase I update before we close the construction loan.

This is just a close-up of the Cohen-Bray House behind the project. It was built in the 1870s. It's on the Historic National Register.

Okay, this is a site plan of the project. As you see, the building envelope is taking up almost the entire site, except for the very back, where there will be some trees planted. This will be a five-story building, which will include 36 units and the 20,000 square-foot community-based health care facility.

The health care facility and the residential units will be divided into two separate legal descriptions. CalHFA's security will be on the housing parcel only.

Okay, this slide shows the two very different facades on this project.
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The south facade along International Boulevard is a commercial facade, showing the five stories of the project.

In the rear, the project steps down to two stories, and it's a residential facade, in keeping with the character of the residential neighborhood on Twenty-Ninth Avenue.

And I wanted to show the floor plans in the slide presentation to show the separation between the health center and the residential units.

These areas here are the parking garage. There will be an entrance here, which will be open during the day when the health center is open. There are nine parking spaces here for the health center.

There's a gate here, so the residents can have their own gated, secured parking area. There's 31 parking spaces here, and the units -- I'm sorry, there's an elevator here. Then there's a separate residential lobby with mailboxes and an elevator.

This is the first floor of the health center, which will house outpatient mental health services, as well as conference rooms, offices, and a community garden for gathering.

This is the second floor. On this floor, there are three residential units, as well as the community
room for the residential, which will have social services
coordination, job training, and a commuter room.

There's also the primary-care medical facility
and comprehensive dental on this floor. The elevator for
the health center stops on the second floor, and that's
the last stop for that elevator, whereas the residential
elevator goes all the way up to the fifth floor.

The third floor has more units, as well as a
community garden and play area for the children, a
contemplative garden for adults. And that's in that
location, because the Cohen-Bray House wanted quiet
neighbors. They're located over here (pointing).

This floor also has the manager's unit, the
manager's office, laundry room.

And the fourth floor has more units. The units
in this project are studios, one-, two-, three-, and
four-bedrooms. As you can see, the project is starting
to step back here.

And the fifth floor is only about a third of the
floor, with the remainder of the units.

Okay, this slide shows the project units and
the market rate rents. Project rents range from 30 to
60 percent of market-rate rents -- I'm sorry, 30 to
60 percent of area median income. The market rents shown
on this slide are from the market study, which was
completed in January. Since the Board package went out, we have received the appraisal. And we are relying on the market rents from the appraisal versus the market study, because the appraisal surveyed market apartments in a tighter area around the project than the market study did.

The market rents from the appraisal are 725 for the studio units, 925 for the one-bedrooms, 1,250 for the two-bedrooms, 1,500 for the three-bedrooms, and 1,700 for the four-bedrooms.

Lastly, I just wanted to talk about the Section 8. Normally, when there is a Section 8 contract with CalHFA projects, you'll see a 30-year first mortgage and then a ten-year second mortgage based on the Section 8 increment rents. On this project, we are requesting approval for, with just one ten-year loan because the loan size is just $1.6 million that they're requesting. So we are relying on Section 8 rents to repay the first mortgage.

On this project, we have a commitment from the Oakland Housing Authority for 18 project-based vouchers for a ten-year term. We will require that the agreement to enter into the Housing Assistance Payment contract be signed before the construction loan closes and the HAP contract will be signed before the permanent loan closes.
The underwriting rents that I used on this project are lower than the contract rents that I've received from the Housing Authority, just because I wanted to be conservative on this.

Actually, the contract rents are 1,285 for the two-bedrooms, 1,650 for the three-bedrooms. The underwriting rents I used were 1,200 and 1,650.

I also did not trend the Section 8 income up at all, so it's flat over the whole ten-year term.

And lastly, there's a $61,800 transitional reserve in the event the Section 8 rents go down at all during the ten-year term. We have that available.

The last thing I wanted to discuss was the high cost per unit on this project. It's $418,000 per unit. There are several reasons for that. This is an urban infill site, so the number of units they were able to construct and spread their costs over was fixed over 36 units.

Secondly, the rear of the project abuts that historic Cohen-Bray House. As a result, the building envelope was forced to step down at the rear of the site from five stories, to three stories, and then two stories, as you saw on the floor plans.

Third, in order to satisfy abutter concerns and the local planning board, the building is designed with a
commercial facade on the front and a residential facade on the rear, which costs more to construct.

Finally, the lower floors of the project will house the Native American Health Center, a full-service health center. And the use of this space by the health center requires additional concrete and waterproofing of the slab between the residential and clinic portions of the building.

MS. WHITTALL-SCHERFEE: And with that, we'd be happy to answer any questions. And we're requesting approval of Seven Directions.

ACTING CHAIR SHINE: The security for the first trust deed in the amount of $1.6 million will be the residential portion of this project.

Is there going to be a recorded air space map or some means by which you can get title insurance to ensure that you have something to foreclose on, if you have to?

MS. ILVONEN: Yes.

MS. WHITTALL-SCHERFEE: I don't know.

MS. ILVONEN: Yes.

ACTING CHAIR SHINE: So those different-colored areas were overall air spaces.

Are the individual units of the residential site also air-spaced by unit, or is it air spaced just by the envelope?
MS. ILVONEN: No. There will be two parcels:
A residential parcel, which will include a portion of the
land, as well as the portions of the building that are
residential-related, and a commercial parcel, which will
include a portion of the land and the commercial portions
of the building.

MS. WHITTALL-SCHERFEE: And our financing is
only on the residential portion of the building. The
financing for the health center is from another source.

ACTING CHAIR SHINE: So the source of my
question was, that being the case, can we -- are we
comfortable that we can carve out the security for the
note and deed of trust that we have?

MS. ILVONEN: Yes.

ACTING CHAIR SHINE: So that if you have to
foreclose, you have something to foreclosure on that
would --

MS. ILVONEN: We've actually been in discussions
with Nicole Slaton from CalHFA, and Tom --

MS. WHITTALL-SCHERFEE: She's in our legal
department.

MS. ILVONEN: -- in our Legal Department, Tom,
and the borrower's attorney about exactly how this would
be finalized.

They're working on the tentative map right now.
We will have the final map before we record the construction loan.

And we're also working on an inter-creditor agreement.

ACTING CHAIR SHINE: So there will be an air space map on record before we fund?

MS. WHITTALL-SCHERFEE: Yes.

ACTING CHAIR SHINE: Any other questions from the Board?

MS. GALANTE: I'm very familiar with the area. We actually are working on a project nearby. And I think this is a great addition to the neighborhood and a lot of interest in Oakland in revitalizing this particular neighborhood, and EBALDC is a great sponsor. So I am very supportive of the project.

I do have two questions. You say there's 18 project-based Section 8. And I am just trying to understand that chart that was up there with the market rate rents and the appraisal rents.

Is the CalHFA mortgage purely secured by the Section 8 rents, or are we also relying on achieving -- and I'll just state my concern, which is I think these 60-percent rents, there's five or six of them, are at or above market for the neighborhood. And, you know, I didn't quite catch all your appraisal rents versus --
the market-study rents clearly are off-base, there's no doubt about that. And I didn't quite catch all the appraisal rents. But these still seem fairly aggressive to me.

MS. ILVONEN: The project rents -- I forgot to mention that one. I did go over that slide.

MS. GALANTE: So these may be covered by Section 8. I'm just not clear on how that's working.

MS. ILVONEN: The project rents did not include the Section 8 rents. They just included the 30 to 60 percent rents that are being charged to the tenants.

The Section 8 rents are 1,250 for the two-bedrooms and 1,450 for the three-bedrooms, and that was not on the chart. The cash flow relevance on both the rents from the 30 to 60 percent AMI units, as well as the Section 8 increment. And the project rents are between 40 and 89 percent of the appraised market rents.

Did that answer your question?

MS. GALANTE: Yes.

MS. ILVONEN: Yes.

MS. GALANTE: We're relying on these rents. So let me ask another question then. It looked like there's a really high hard-cost contingency, soft-cost contingency. And I assume the project hasn't been bid yet, and trying to be conservative about pricing
going up.

If there is savings, if we don't -- if they
don't use all that contingency, can some of that be used
to lower some of those 60-percent rents?

MS. ILVONEN: Well, actually, okay, there's a
couple things. One, at the time this Board package was
sent out, we didn't have bids from the investor, either.
And the investor bids have come in higher than were
shown on this board write-up. So I am expecting that the
permanent loan will probably go down.

I don't know what an EBALDC will do with the
60 percent rents. We haven't talked about that at all.
But I expect that CalHFA's final loan on this will be
lower than 1.6 million.

Also, you're correct, the project has not been
bid out yet. Although the design is further along than a
lot of other projects that I've taken to board, so it
is -- it's further along.

And the contractor has been selected and has
looked at the plans. So the numbers in the Board
presentation are hopefully pretty close to what the final
bids are going to be coming in at.

There is a large contingency just because
they're not final bids. So we wanted to have some room
in there.
MS. GALANTE: Okay, I'm very supportive of it. I just had a little note of caution about those 60 percent rents. And I would encourage you all in conversation with the sponsor to think about, you know, if things get better, to think about trying to lower those closer to 50 or 55 percent.

MS. PARKER: Yes, we'll take that back to our sponsor and essentially see if that is -- if there is some ability, when all the numbers come in, to see if there's the ability to do something on the rent, reducing the rent.

This is a great sponsor.

MS. GALANTE: Yes, I agree. I agree.

ACTING CHAIR SHINE: Comments from the Board?

(No audible response)

ACTING CHAIR SHINE: From the public?

(No audible response)

ACTING CHAIR SHINE: A motion?

MR. MORRIS: So moved.

MR. PAVAO: Second.

ACTING CHAIR SHINE: Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Aye.

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Aye.
MS. OJIMA: Ms. Galante?
MS. GALANTE: Aye.
MS. OJIMA: Mr. Augustine?
MR. AUGUSTINE: Aye.
MS. OJIMA: Mr. Morris?
MR. MORRIS: Aye.
MS. OJIMA: Mr. Shine?
ACTING CHAIR SHINE: Aye.
MS. OJIMA: Resolution 06-10 has been approved.

Item 4. Discussion, recommendation and possible action relative to final loan commitments for three projects. (continued)

Resolution 06-11 (Villa Vasconcellos)

ACTING CHAIR SHINE: Okay, we have a third project in front of us today, 70 units in Walnut Creek.
MS. FRETZ-BROWN: Yes, sir. The third project is Villa Vasconcellos in Walnut Creek; and Ed Gipson, chief of Multifamily Lending and also director of the Culver City office, will be presenting.

MR. GIPSON: This is a final commitment request for Villa Vasconcellos, a 70-unit new construction senior project located in the City of Walnut Creek in Contra Costa County. The sponsor is Resources for Community Development. The borrower will be Villa
Vasconcellos LP, a California limited partnership.

This is a special-needs project. Twenty-five of the 70 units will be for seniors who are homeless or have mental or physical disabilities. There is a construction loan in the amount of $11,435,000, and they are requesting a permanent mortgage of $121,518. A very small perm.

The construction will be tax-exempt. The permanent is expected to be Agency funds, most likely Housing Assistance Trust funds.

This project has received a large number of residual receipt financing. The City of Walnut Creek has provided CDBG funds, RDA funds in lieu of fee funds, if you will. Contra Costa County is providing HOME financing and HOPWA financing. In addition, it has AHP. HCD has provided MHP financing.

And with that, I'll let Kathy provide us additional details about the project.

MS. WERE MIUK: Good morning. I'm Kathy Weremiuk, and I'm pleased to be bringing this project to you.

Resources for Community Development is a sponsor we've worked with many times. They have an emphasis on providing service-enriched housing. In the Bay Area, they currently have 379 port of service units in
operation, and they have another 58 in construction.

The property is in Walnut Creek. It's 15 miles north of downtown Oakland. It's a bedroom community.

The project itself is on the junction of Geary Boulevard and Powell Avenue. It's adjacent to the I-680 freeway, about two blocks from it. And this is North Main Street. It's a major road that runs two miles to the south. It will go under -- back under the 680 and turn up in downtown Walnut Creek, which has tremendous facilities for rents in the residents in the town center.

It's close to the Pleasant Hill -- a third of a mile from the Pleasant Hill Town Center and BART station.

There is a bus stop on the corner of North Main and Geary, providing transportation for the seniors.

The general character of the neighborhood is very stable residential.

Adjacent to the property, there are some commercial uses. Across the street, there is a vacant commercial parcel that had been a food co-op at some point. It will be redeveloped, although I believe there's some environmental issues on it that will delay the redevelopment of that parcel.

There is a gas station and a fast-food outlet -- McDonald's or Burger King, I can't remember which -- on North Main. And then the main entry to the project is
off of Powell, and it will be through the residential portion of the neighborhood.

The project itself currently is -- and you'll see -- I was saying what it currently is. It's currently a vacant lot.

At the time this photo was taken, it was an abandoned Alzheimer's unit that was in the process of demolition. It has been abandoned for several years. And there are no relocation issues associated with the site.

The site had a clean Phase I. The building itself had some asbestos that was in the existing building.

We will require that all of that asbestos be abated appropriately and removed appropriately at the time that we take down the construction loan.

The only other issue that came up on the property was noise from the I-60 and also from Geary because it's a major arterial. And the remediation is some soundproofing of the walls and windows on the commercial-facing portions of the building. And that's been built into the building design -- the proposed design.

On the site itself -- and I'll show it later on the site plan -- this is Powell. The entry will be
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through Powell. It will be a gated entry for security, although the neighborhood is very secure, and it doesn't necessarily require gating.

The site is, as you can see, irregular, and it's about a 1.4 acres.

This is a front view on it. There's some elevation issues. The site slopes in several directions. I'm sorry, the slide is kind of dark, but I'll just --

This is looking across. And it's, again, showing the elevation. This is the vacant parcel. This would be the roofline of the abandoned co-op across this street.

This is some of the commercial that's adjacent on Powell Street.

The architect is Van Meter Williams Pollack. We've worked with them before. They're terrific. They did the Fremont Oaks special-needs project for hearing-impaired seniors. I thought that project turned out to be more beautiful than any project that I have worked on in the years that I've been with the Agency.

This is the front of Geary. Although it is a street frontage, the main entrance for the residents will be from behind. And they've dealt with some of the elevation issues on the property. There's sloping -- they've dealt with some of the sloping in the front by
putting walkways in on the area of the project that abuts the commercial -- North Main and commercial areas.

The building will be three-story. It will step down to a two-story building as you get to the residential, the area of the site that has residential abutments.

The architect took some renderings and some photos of a model they developed to show us some of the detailing we anticipate seeing: awnings over cornered windows, recessed windows, parapet, overhangs, nice detailing in the stucco. It will be a stucco building with some wood siding. And it has two interior courtyards, a fairly attractive interior lobby.

This is the site plan for the building. It's built around two interior courtyards for the senior residents. Most of the units are off of double-loaded corridors.

The residents will be entering through the community section of the building here (pointing).

There's a very large community room and kitchen and a very extensive supportive service base, five offices for services and management.

Built into the project is a coordinator position. Half of that position will be funded through the operation of the project. The remainder will be
funded through fund-raising.

The service provider is Pittsburg Preschool Community Council. It sounds like a strange name for a senior project; but they, in fact, started as a preschool, expanded. And they're doing other senior supportive housing projects with RCD currently.

They have joined forces with the County Aging and Adult Services Group, the Health and Homeless Service programs, and a group called New Connections, so that they'll be providing, through those connections with other agencies, mental health services, medical case management, crisis management, and substance abuse assistance for the residents.

The services will be available to all 69 residents in the building. Not just for the 24 units that are getting supportive services, but the services will be more intense for the supportive services residents.

Because of the very, very small size of the permanent loan, we have been talking with HCD staff; and we think that it's more appropriate for HCD, who has a larger loan, to do most of the monitoring on this project. And so you'll see a scaled-back management plan for Villa Vasconcellos because we have only a $120,000 permanent loan. HCD would monitor placement reserves.
And also we'll follow their service plan recommendations and not add any additional recommendations from the Agency.

Because it's a senior building, there will be a longer lease-up period. There is a small reserve for rent-up.

The units -- 35 percent of the units will be the 20 and 35 percent units. Those will be for the residents that need supportive services. We anticipate those will lease up in two months.

There are 44 units that are 50 percent AMI. They're at $739. They're about 75 percent of market. And those units, there will be a longer lease-up period.

There are no subsidies for this project at this point in time, in part, because they're just not available in Contra Costa County right now. There may be some Shelter Plus Care available later on; and if there is Shelter Plus Care available later on, you may see a small increase in our permanent loan.

With that, I'll entertain any questions that you have.

Thank you.

ACTING CHAIR SHINE: From the Board, comments, questions, concerns?

(No audible response)
ACTING CHAIR SHINE: I have just two minor questions, and it had to do with mathematics. You know what I'm going to say.

MR. GIPSON: I'm guessing.

ACTING CHAIR SHINE: We have 500 85 square-foot units, and if you do the math, that adds up to 42,000; and yet we're building 60,000 feet. Is the common area 18,000 feet?

MS. WEREMIUK: There is an extensive common area in the building. But I'm not sure, and I'd have to go back.

ACTING CHAIR SHINE: So 30 percent of the project that we're building is common area?

If that sounds like the deal, that's the deal. I just wanted to know.

MS. WEREMIUK: They're double -- it may be the counting of the double-loaded corridors, and also we may have counted, when we did that, the two interior courtyards. And I think that's something that we would have to go back to the plans and do a second takeoff on it.

ACTING CHAIR SHINE: It doesn't change the project.

MS. WEREMIUK: Right.

ACTING CHAIR SHINE: I was just curious.
The only other comment that I have, or question, is under use of funds of new construction, you had a construction contract line item for 9.4 million. That's a duplicate of the other costs in there. Otherwise, it adds up kind of funny.

MS. WEREMIUK: Let me take a quick look at that.

MS. PARKER: It's at page 201, Kathy.

ACTING CHAIR SHINE: The seventh item down, it says --

MS. WEREMIUK: Oh, yes, it is a duplicate.

ACTING CHAIR SHINE: That's a non-add --

MS. WEREMIUK: It's a mistake. It's just a -- we take our -- it's just a total. We take a reserve off of that total cost, absent the utility and test inspections.

ACTING CHAIR SHINE: So your contract is going to be $9.4 million, even though the work may be less or more than the line items?

MS. WEREMIUK: Right.

ACTING CHAIR SHINE: That's fine.

Any other comments from the Board?

(No audible response)

ACTING CHAIR SHINE: From the public?

(No audible response)

MS. WEREMIUK: The project is pretty far along,
too, in terms of the numbers. These takeoffs were done at 60 percent completion.

Right now, they're going in for permits. I think they'll be filing permits next week. We do expect an upgrade and a new bid on 100 percent complete drawings. But the number is fairly good at this point in time.

ACTING CHAIR SHINE: Good.

If there's no --

MS. GALANTE: I just want to comment.

This is a fabulous location. And then all the resources they've been able to pull together is pretty impressive as well to take this on. So I think it's great.

ACTING CHAIR SHINE: Okay, there being no comments, do I hear a motion?

MS. GALANTE: I move.

ACTING CHAIR SHINE: Second?

MR. AUGUSTINE: Second.

ACTING CHAIR SHINE: Okay.

Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Aye.

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Aye.
MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: Resolution 06-11 has been approved.

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Item 5. Update on Bay Area Housing Plan

ACTING CHAIR SHINE: Okay, that being the case, we now want to have a little discussion, an update on the Bay Area Housing Plan.

MS. PARKER: Edwin and Kathy are the primaries.

MR. GIPSON: We're going to provide an update to the Bay Area Housing Plan. We've discussed it many times, and we have been before the Board twice for approval now, up to $45 million, and rightfully so. We're providing you a progress update on where we are today and a few of the things that have happened and a few of the surprises along the way. Although those aren't great, they took longer than expected. And I think that's really what the key is. And I'll let Kathy go into further detail in explaining where we are and
what we expect to have.

But I'll just add, we do have a handout in front of you. The cover page says "BAHP Purchase Agreement Log." It's just a little handout. It does point out some of the projects that have been -- sites identified as some other things.

And with that, I'll let Kathy Weremiuk elaborate further.

MS. WEREMIUK: Hi. In January, when we came before the Board and asked you for an additional permanent loan commitment of up to 45 million and an additional preliminary commitment taking the total financing up to 120 million, we fully anticipated that we would be through the facilities closing at this point in time. We are not.

We brought that project to the Board so that the Agency wouldn't be the party that held back the ability of the master developer, DDS, and the regional centers to meet the Agnews closing deadlines of December 2007, which had been set by the Legislature.

The reason that it really did not happen is the incredible complexity of the project and of the closing process that we're going through. It's new ground. It's new ground for all of us.

The Agency -- through the Agency and with the
help of Morgan Jones from McDonough, Holland & Allen, have developed more than 30 new loan documents, some of them completely from scratch, that are out and being circulated for comments from Bank of America, the three regional centers, the three nonprofits, the master developer DDS, and the attorneys for the syndicate Bank of America has put together to participate in the project.

Some of the documents are almost at finalization; some are still waiting for comment. And that's only our set of documentation. B of A has its loan docs and the loan purchase agreement. The regional centers have all the Bay Area Housing Plan docs which need to be updated. Some needed to be rewritten. They have agreements with the NPOs. DDS had contract language, as well as several legal opinions that we needed.

We are close to finalization on everything that has to do with the Department of Developmental Services, and fairly far along on the work that we're doing with Bank of America.

Our current expectation on this is that the closing will occur at the end of this month or the beginning of April. And there will be two closings that will occur. It will be the Bank of America facilities
closing, which would mean essentially approval of every
document that's going to be involved in the transaction,
all the way through, from the beginning to our loan
purchase -- or purchase of the 72 loans over the next two
and a half years.

And there will also be a syndication closing,
with the several banks that are participating in the
syndication by assignment that Bank of America has put
together for this process. I think they've identified --

Gabriel Speyer is here from Bank of America, and I think
they've identified all those banks, and they've got their
documents ready to go out to them in almost-final form on
Friday.

Through this process, we have really not changed
our term sheet; but I would say crystallized a range of
issues that had to be dealt with, both in terms of what
the loan purchase would look like and anticipating
transactions on properties we've never seen two years
hence, to crystallizing exactly what would happen with
the sale of our bonds, working through all of the bond
issues, with Bond Counsel and our Finance Department,
working through a myriad of legal issues with our Legal
Department, billing issues with our Accounting
Department, and how we would handle the asset management
of this, as well as working through what kind of scope of
work master design guidelines we would get from the master developer of the project.

We're close. It's a lot to pull together. And I think we have been working full-time and working hard. We wish we were done. I know I do.

The master developer, as he promised at the last meeting, has continued to go out and look for properties. They've surfaced 20 -- or 19 properties that they could have bought. Ten they lost because of the delays in the closing. They made offers on nine. They have two under contract.

The surprise that they have found is that, despite what the newspapers say, the real estate market is not quiet. They've lost a couple of properties on overbids and not being able to move as fast as the sellers wanted them to move.

There are still five that are pending. They also found they lost some because they hadn't coordinated all of the signatures they needed from the Regional Center steering committee, and how they got that whole process working, they've perfected that as they've been going along.

Their offers are, at this point, with funds that are refundable because they haven't put hard money down. They will, as soon as the close takes place. And we
anticipate that as the facility's close happens, we will probably have properties that we'll be taking official action on within 10 to 20 days after that facility's closing.

The materials that I provided for you was a tracking sheet from the master developer on the properties they've identified. I wanted to let you know that they have been working on this, our term sheet, and how that's developed.

And then a checklist -- I didn't give you the documents, but the 108 steps in our closing checklist that would take us through the facility's closing process, all the way through the steps that we would take with Bank of America agreeing to add the property to collateral and acquisition, what we would need for that at the point at which we approved the plans and specs, which would be before the first construction draw. The point that we agree that we will take down the loan when it has stabilized and everything is set; and we agree that we'll buy the loan within 180 days, and then what our bond steps would be and what closing would look like.

Each of those steps represents documents, thoughts, and work that we've been putting into it.

We'd welcome any questions.

ACTING CHAIR SHINE: Huge job. Good show.
Any comments or questions from the Board?

MS. PARKER: Mr. Chairman, I know that we have some of our colleagues from Bank of America that are here. I just want to make sure that we recognize Gabe Garrett is here. I don't know if anybody else on your team is.

MR. GIPSON: Yes. Gabriel Speyer is here today from Bank of America.

MS. PARKER: If you would stand up.

MR. GIPSON: And Morgan Jones from McDonough, Holland & Allen, our outside counsel, who has been working diligently.

I will say, it has been a monstrous effort, without a doubt. I'm very proud of the team and everybody who has put stuff into it to move a great deal of the way. Because you can take a look at that checklist. And rest assured, there will be a few more items on it, without a doubt. But this whole process, we are trying to be very careful, concerned; and we are trying to give them what they need in a timely manner.

All parties have different understandings and different expectations in certain areas, certain groups who we are working with are not familiar with real estate as well, so making sure they have the appropriate counsels, and working with them and working through the
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details.

MS. PARKER: Is anyone here from the Department of Developmental Services?

MR. GIPSON: I don't believe I saw anybody today.

MS. PARKER: That's the other leg of the stool that brings in huge complexities: the Department of Developmental Services and the regional centers.

MR. GIPSON: And the regional centers.

MS. PARKER: So it is many cats to herd. I say that with great affection.

MS. WEREMIUK: It's also the Department of Health Services. I mean, their Department of Social Services, we've been in discussions not just with DDS, but a range of parties as we've been doing this. But DDS has been incredibly helpful and gracious through the process, and really has been trying to facilitate it from their side.

ACTING CHAIR SHINE: Does anybody in the public want to say anything, ask any questions or make any statements or comments?

MR. SPEYER: I'll echo what Kathy said regarding the complexity of the project.

Thank you.

ACTING CHAIR SHINE: It is not a small
checklist.

MS. GALANTE: We have an expression that says, "If it were easy, someone else would have done it by now."

ACTING CHAIR SHINE: That being the case --

MS. PARKER: This is an information item only, Mr. Chairman. There is no action to be taken. Just given the significance of this, we believe it's really important to continue to give you information at every Board meeting about where we are at in this process.

We'll be chatting a little bit more about it when we go through our business plan update because -- our concept business plan -- because, obviously, it will fit into the Agency's production goals for the next year.

ACTING CHAIR SHINE: That being the case, let's take a 15-minute break.

(A recess was taken from 10:36 a.m. to 10:47 a.m.)

MS. PARKER: The majority of staff here are really from the Agency, because we've had the meeting in Sacramento, we try to have as many of the staff come and be able to participate and see what an actual board meeting is like, see the board member, see the decision-making process that you go through. So that's why there's considerably more people in the audience than
there would normally be if we were in the Bay Area, if we were in Los Angeles.

ACTING CHAIR SHINE: Good.

MS. PARKER: So, Ken, do you want to come up and introduce these PSAs?

Ken Giebel, our director of Marketing.

MR. GIEBEL: Just a couple of words on this -- good morning, by the way.

About three years, we made some PSAs, and cut it together from some footage we had shot for a video. One of our initiatives this year was to redo the PSAs, humanize them. The people you are going to see -- and I will let Evan talk about this a little bit -- this is Evan Gerberding, our assistant director of Marketing. And Evan is our video person. She comes from TV. So these are Evan's work, along with our ad agency.

And with that, Ev, why, don't you explain what we're attempting to do here? And I think we've been very successful, at a very small cost.

MS. GERBERDING: The intent was to show real borrowers. These are actual borrowers in all cases but one. And they're real stories. So we're trying to be as authentic as we possibly can here. And I think that you'll see that they are very genuine.

We have four 30-second TV spots. Two are
general market, homeownership spots. One is the same in
Spanish. And then we also have one that focuses on what
our Extra-Credit Teacher Program is. We're also going to
air 60-second radio spots as well.

MR. GIEBEL: Just one other thing to let you
know. These are PSA spots. Typically, they're run at
the stations whenever they feel like it.

MS. GERBERDING: Three o'clock in the morning.

MR. GIEBEL: Whenever they have excess air time.

But we are working with the California Broadcast
Association, and they have a special program where they
buy -- they position it as a PSA that stations have to
run under the federal laws; but they inventory and
actually buy the excess inventory on radio and TV with
138 stations across the state. And at a very nominal
cost, we can buy these air time in specific markets, and
ensure that these are run from 6:00 in the morning to --
what is it, midnight?

MS. GERBERDING: From 6:00 a.m. to midnight.

MR. GIEBEL: Midnight.

MS. GERBERDING: And many end up in prime time,
believe it or not.

MR. GIEBEL: So it's excess inventory, that they
now get the inventory under their -- if you sign up with
them, and all the independent stations are.
So we plan on running these in the spring. The
homeownership ones will probably sit on the ECTP one, the
Extra Credit Teachers Program, a little bit longer.
Okay.

(Public service announcements played as follows:

"Ten years ago Matthew Nichols
found this used guitar in a small
music shop. He spent days repairing
it before it would play. And while
he worked, Matthew dreamed of someday
owning a home of his own and fixing
it up, too. But the rising cost of
homes in California seemed out of
reach, until he learned about the
California Housing Finance Agency.
They've helped Matthew and many
others become first-time homeowners.

"To find out how CalHFA can help
you, call us or visit our Web site."

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"This photograph has never been
far from Kathryn and Philip Kay.
Even when they moved from across the
world, Kathryn insisted in holding it
in her lap during the trip. They
also held on to a dream that one day
it would hang in a home of their own.

But the cost of housing in
California seemed out of reach, until
they learned about the California
Housing Finance Agency. They've
helped Kathryn and Philip and many
others become first-time homeowners.

"To find out how CalHFA can help
you, call us or visit our Web site."

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"With a teacher's moderate
income, who can even dream of owning
a home in California? Thanks to
CalHFA, Rodney can. By taking
advantage of CalHFA's Extra Credit
Teacher Program, Rodney was able to
realize his dream of owning a home.
The California Housing Finance Agency
has helped nearly 1,200 California
teachers become first-time
homeowners.

"To find out how CalHFA can help
you, call us or visit our Web site.")

MS. GERBERDING: Now this last one you are about
to see is in Spanish, but we've added English subtitles to it. This, of course, isn't going to air that way, but just for your benefit, they're on there.

(Public service announcement played in Spanish.)

MR. GIEBEL: Thank you.

ACTING CHAIR SHINE: Nice. Very nice.

MS. PARKER: I want to make one other pitch for our Marketing Department, and that is, they've been working particularly on the Extra Credit Teacher Program, and had a major breakthrough with the assistance of the Treasurer's office in getting the CTA to waive an original denial for us to be able to have our Extra Credit Teacher Program marketed in competition with some of their other vendors. So I really want to appreciate and acknowledge the efforts of the Treasurer's office in helping us with that program that I know is very important to the Treasurer.

I'm going to swing around here and participate in the presentation of our business plan.

MR. MORRIS: Just one question on the PSAs.

MS. PARKER: Good, yes.

MR. MORRIS: Are those going to be on the Web site as well?

MS. GERBERDING: Yes.

MR. GIEBEL: Yes.
MR. MORRIS: And also, is it possible -- I think the Governor's Web page probably gets the greatest amount of hits.

Is there any way they will let us put those on --

MR. GIEBEL: We'll have to ask them. But at the very least, we should be able to get a link.

MR. MORRIS: Yes, that's what I mean, a link from there.

MR. GIEBEL: Right. We're linked to HCD and some of the others and TC&H.

MR. MORRIS: Okay, great.

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Item 6. Progress Report on Development of CalHFA

Five Year Business Plan

MS. PARKER: It's still "good morning."

So we've tried -- every year in the March board meeting, we essentially start out the new fiscal year -- in January updating where we are and a business plan from a midyear update. Then we come back in March, and we essentially talk with you about a concept proposal for the business plan to be adopted by the Board in May.

This is based on us having meetings with some focus groups, some of our customers, to find out what's going on in the market, what we think some of the major needs
are. And also us looking at our internal resources and capacities, to see what we think we can stretch and propose to the Board as a business plan that, once adopted then, this becomes the instructions to the staff of what our goals and missions are for the next upcoming year; but also to our community, what our business plan is for the next three to five years, so they can plan on these resources and these lending programs being available, if they can't have access or are working in the middle of a deal now that may not come to fruition to apply for our loan products for the next year or two.

So I am going to walk you through with the assistance of the senior managers; but I think what I wanted to start doing just for the first is, is to tell you how we're going to do this presentation.

The first thing we're going to do is start off by giving you an overview of the Housing Assistance Trust funds for program initiatives. And that's really our Agency's resources for us to have the maximum flexibility of investments to further our mission and goals.

From that, once we set that stage, we're going to talk about the production goals for Homeownership, Mortgage Insurance, Multifamily, and other lending programs; and then we're going to talk a little bit about where we are on our Asset Management and our REO
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properties, and talk with you about some of the
considerations that we also want you to be aware of in
order for us to meet what these concepts are, and may be
some impediments to meet those concepts.

So to begin with, I'm going to ask Bruce to
provide a segue between some of the discussions we've had
and last meetings, going through our financials, going
through the updates by Gene Slater on our assets and our
portfolio that bring us to what our recommendation is: of
using the Housing Assistance Trust funds that are on the
slide before you.

MR. SLATER: Thank you, Terri.

Good morning. Unfortunately, I look at the
Board that's sitting in front of me today, and I don't
see many faces that participated last year in the
analysis that we did. We called it the resource
allocation study. There's a few of you; but some of the
Board members are new, and people simply weren't able to
attend some of the meetings. But we did contract with
CSG Advisors during 2005 to conduct what we refer to as a
"resource allocation study." We did this in conjunction
with an annual effort of running our consolidated cash
flows that we do for bond-rating agency purposes.

We shared the results of the resource allocation
study and the cash flow analysis with the Board at two
times during last year. There was an April special
session of the Board, and then as a part of the
July board meeting.

The good news is, of course, we passed even the
most stressful rating agency runs for our two primary
indentures. But what it did illustrate to us is that
there were some serious restrictions, if some of the most
stressful runs were to actually happen. And these are
situations where interest rates go to extreme levels, or
prepayments go to extreme levels. And what we came away
with from that exercise, is that we wouldn't be able to
withdraw large sums of monies from the indentures to pass
stressful environments in our two primary bond
indentures: the one we operate our single-family housing
program from and the Multifamily Program.

The second phase of that resource allocation
study was to model up the business plan that the Board
approved last May. So we took the annual production
levels and assumed that we would reach all of those
production levels. We would issue bonds accordingly.
We modeled that over a five-year period, using management
expectations. Not stressful expectations of interest
rate environments that we don't really foresee ever
happening or prepayment levels that we would ever foresee
happening.
So part of that, we used an amount of about $65 million from the Housing Assistance Trust to support special program initiatives of the Agency, similar to those that you see on the slide in front of you.

The expected case cash flow analysis, what that pointed out to us is that over that five-year business planning period, beginning in 2005, running to 2010, continue to show positive growth of fund balances. However, the growth was at a slower pace than what we had realized historically within the Agency.

That analysis has not been updated since last summer. I think we last looked at that in July.

We have since then seen financial statement results as a part of the annual auditing process. And I think that was brought before you in November. Operating results were not robust, perhaps the lowest that this agency has realized in a number of years. $21 million of net income.

With all of that as background, we felt that a prudent management level of expenditure utilizing our Housing Assistance Trust funds would, again, be a $65 million number.

MS. PARKER: I think the importance of this is, in the past we have essentially talked with you about, you know, production levels in these programs, but really
haven't brought into focus the utilization of the Housing Assistance Trust funds. And at the end of the day, for the Board, this is really your decision-making process, because the production levels in those different programs will fall out, depending on what you do here.

So we are -- and we're trying this last year to discipline ourselves, and holding ourselves to the $65 million, so that we manage the amount of money that we're taking out of our indentures on a planned stream; that we don't use any one of any great amount in any given one year, and then not have that in an upcoming year, or more heavily rely on increased profitability that may or may not come.

So what we're trying to do here is, given the additional information that we have been able to do through these analysis, looking at profitability and also what we want to achieve from a public benefit stand, we have come back and made our recommendations to you here.

And we will talk through, if the Board decides to adopt this strategy and/or wants to make some changes to it, what we think that that may mean from the productions that will follow this.

So I am just going to go through and give you some sense of what this actually means in the productions.
We're proposing to have about $35 million be available for Down Payment Assistance.

Now, two years ago, the agency spent almost $85 million of Housing Assistance Trust fund and Down Payment Assistance to do about $1.2 million with single-family production.

We decided that we just could not maintain that amount of resources, of scarce Housing Assistance Trust funds for Down Payment Assistance. And that's why the last year we made some changes in some of the single-family products that we did. We moved to an IO, 35-year loan product; and our regular 30-year product being 100 percent loan, so that the Down Payment Assistance or Prop. 46 could be on top of that.

But Agency funds for Down Payment Assistance wouldn't be used to the extent that it was in the past. So these -- we'll talk about what these are specifically to be utilized in production in high-cost areas.

But we were able to discipline ourselves, and even with that, increase our housing production. That allowed us to be able to put more Housing Assistance Trust funds into some of the programs in the Multifamily area, which we started last year: Habitat For Humanity programs. Continuing to fund our HELP program at a $20 million level. Continuing to have a special business
development program. And more importantly also, put a $10 million commitment in for funding for -- liquidity funding for Homeless Projects. And that ties into the Governor's proposal that was put in his May budget, and adopted by the Legislature, for a Homeless Phase I Initiative.

So we're building on that for the 2006-2007 level, going forward.

And if you see what we have proposed as far as HAT budget commitments, it is to keep Down Payment Assistance in single-family at about 35 million.

Our Self-Help Business Development -- or Self-Help Business program at two and a half million, we are proposing -- and we'll talk about this again when we go through the individual ones -- is to create a new subsidy program, or substitute program in Multifamily lending, which is the AHP -- we'll talk about that -- to maintain the commitment of $5 million for Habitat.

To have a $30 million locality program, half of it being funded from HAT, the other half of it coming out of Prop. 46 funds that we got legislation passed last year to create this residential development loan program, where we would use Prop. 46 funds to offer to, under this proposal, localities for them to do homeownership kinds of construction.
The portfolio management needs to resshore up through some lending for some of our existing projects. And we're proposing that at $4 million.

The last column over here is what we are -- our expected HAT utilization. And as you can see, that numbering goes down to $65 million. And when there are variances between what we're proposing the budget to contain and what we expect -- expecting utilization, it's just, frankly, our best against, particularly for some of these new programs, of what the utilization will actually be. If we are surprised, we can handle it, we can manage it; but we think it's important that the community know, for example, that there's going to be $10 million in this new Multifamily lending program in order to create additional business, see it by developers that this could help projects pencil out. But the reality is that we don't think we're going to have any more than about a $6 million demand next year.

So I'd be happy to answer any questions. But we wanted to lay it out this way because, you know, this is really, you know, the major decision-making point for the Board.

MS. GALANTE: I just have some clarifying questions.

You've got broken down between single-family...
programs and Multifamily programs. But some of the things listed under Multifamily programs are actually going to Homeownership; correct? So it's -- is this really kind of mortgage versus production? I mean, Habitat For Humanity, and then you mentioned under the Prop. 46 money, my sense was that some of that help was for ownership, which I'm just trying to make sure I'm understanding.

MS. PARKER: Right. I think as we go through the slides, the reason why it's under Multifamily programs is because the director of Multifamily administers -- it really manages these programs.

MS. GALANTE: Great, great.

MS. PARKER: On our slide, they'll show up as special lending programs.

MS. GALANTE: Great.

MS. PARKER: Good question.

Okay, I'm going to let that settle.

And let us go in, and we'll talk about the programs specifically.

To walk us through Homeownership, Jerry Smart.

Jerry?

MR. SMART: Good morning.

In the Homeownership program, we're proposing to set a significant goal for our first mortgage production.
It represents about a 25 percent increase over the current fiscal year.

This year, our goal was 1.2 billion for first-time home buyer lending; and we're proposing to increase that to 1.5.

We're fairly confident that we'll be able to achieve that with the support of the HAT Down payment Assistance-funded funds, the 35 million, plus Prop. 46, the four programs that we have there, will help support the origination of those first mortgages.

And as coupled with our continuation of the interest only PLUS program, since we introduced that last March -- April, I think it was -- we have seen that program increase to where it's now, roughly, about 38 percent and growing over our current portfolio. And that's without our major originating lenders participating. It's taking them some additional time to come on board.

Wells Fargo, Countrywide, Chase just started this last month. So once those major lenders participate, we think that this will continue to grow significantly.

We are also introducing the 40-year mortgage. In fact, we issued a bulletin last Monday to introduce this.
The lead time for programs in Homeownership takes a while. And reservations that are taken today, it's going to take 90 days before we see delivery on those. We figure that our lenders are going to need at least 30 to 60 days just to get their systems up to date and ready to handle the program. So by the time all of this kicks in, it will be the beginning of the fiscal year.

And we think the 40-year, although it's not going to be as sought after as I would imagine the IOP -- the interest only -- I think it will become a significant part of our business going forward.

Homeownership will continue to evaluate and introduce new loan products to meet market changes and customer demand. For example, we're working with Fannie Mae and other HFAs across the country -- Mass Housing, to name one -- which we're developing standard branded products, or standardized loan products, such as the 40-year mortgage, so that can be utilized by HFAs across the country. And we will continue to look at that.

We'll continue to look at our current programs, to see if we can -- if they need to be amended or targeted to specific areas to improve productivity.

And we'll be implementing marketing and IT
enhancements to stimulate production. For example, we are looking at developing -- or we are in the process of developing a lead generation program. Currently, it's going to be very similar to the CalPERS lead generation, which will identify active loan officers, originators of CalHFA loans; and try to refer them -- or give them referrals -- loan referrals.

When we receive phone calls from interested home buyers, we can refer them to their most active participants, and turn those into real loans. Whereas if they just go out now, they go to our list of potential lenders. And some of those, we'll never see again. They get flipped into something that's probably less beneficial.

So it's our hope that we set up this program, and with the follow-through that we visualize with these lenders, that we'll be able to turn these into potential CalHFA loans.

And we're continuing with our Homeownership origination project, to upgrade the loan reservation system. It includes a better business practice process, in which we'll analyze the current processes within Homeownership, and look at outside -- other HFAs and lenders to see what better business practices they have that we can adopt to improve our productivity and
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streamline our program.

So with that, that's --

MS. PARKER: Before I have you answer questions, I'm going to also introduce Greg Carter, who is our interim director of Mortgage Insurance.

And I think it's important for us to talk about Mortgage Insurance and our first mortgage loan programs together. Because as Greg will tell you, these programs are really going hand in hand.

So, Greg?

MR. CARTER: Yes, we see our role in this business plan as actually supporting Homeownership's goal of 1.5 billion. In order to do that, we have looked at the history. In 2003, 12 percent of what we insured was Homeownership product. 2004 it was about 26 percent. In 2005, 51 percent of our insurance was on Homeownership product. And the trend is upward.

With the introduction of the new programs that Jerry has talked about and about to roll out, we see that we have to start to realign our resources to cope with the production levels that Jerry is going to do, translating into $840 million a year in that fiscal year for Mortgage Insurance.

So we need to be sure that our resources, both financial resources are available, as well as our
physical resources: Can we handle that amount of
business?

And, obviously, we think we can; but these are
the things we're looking at.

We want to continue to participate in the CalHFA
loan program by offering low mortgage insurance premiums,
as well as other products, similar to the HomeOpeners
program, which is an unemployment insurance aspect of
that.

We also want to participate as much as we can
in helping promote and to train lenders on the CalHFA
products, and to be involved in the outreach events that
involve CalHFA, as well as insurance products.

MS. PARKER: And I think as Greg was saying, one
thing we did, we essentially looked at the kinds of
insurance products that we have had in the last five
years or so. Some of them have really declined in
production. One that is most notable is a partnership we
had with the state teachers pension fund. And we had a
meeting with them recently, and said, as much as we would
like to, their -- they wanted to raise their sales price
limits and their income limits, which is really not our
goal, custom, or group. And it would have taken
resources available, away from us that we could be using
in matching with the CalHFA first mortgages.
So we really have gone through, to some extent, a refocus of our capacity to better serve what we believe is our targeted group.

So with that, if there are any questions on the homeownership side, insurance side, we're prepared to answer.

Mr. Morris?

MR. MORRIS: Yes, on the home mortgage products, you said about 38 percent are the interest only PLUS product. Maybe you can just go through your asset allocation of how you envision where we see 1.5 million in new products this year. What would be the major loan programs that you think would be the most successful, or --

MR. SMART: Going forward, I would think that the interest only PLUS would represent about 40 to 45 percent of our total loan production, of the 1.5.

The 30-year fixed-rate mortgage would probably -- in this coming fiscal year -- represent about 45 percent as well, or maybe 50 percent, and the remaining balance would be the new 40. That's, you know, just --

MR. MORRIS: How will that work out?

MR. SMART: It's quite early right now to make any intelligent guess as to what we're going to take in.
But I think it will probably be overall --

MR. MORRIS: So the interest only and the
30-year are about equal in popularity right now?

MR. SMART: I would say so, yes.

MS. PARKER: Okay, thank you both, gentlemen.

Let me introduce our Multifamily team and have
them come up and do their presentation on our Multifamily
production goals; and that will not only be Multifamily,
but also special lending.

MS. FRETZ-BROWN: Beverly Fretz-Brown, interim
director, Multifamily.

The production goals for next year were being
quite ambitious; and we'll fill you in, in terms of why
we think we can make it.

As you see there, the total production we're
hoping for is about 320 million; and that includes the
Bay Area Housing Plan, of those figures. But even with
or without the Bay Area Housing Plan, that represents
about a 38 percent increase over this year, over our
expected new final commitments.

As you recall from the midyear meeting, the
Multifamily division this year has been concentrating on
closings. And by the end of this fiscal year, we will
have closed approximately 450 million dollars' worth of
loans. It's been an incredible effort. It's three times
the number of closings of last year. And last year was
our highest closing.

So with a great concentration on closings, with
at least part of this year, a poor interest-rate market
for us, and with very, very significant competition from
the private market, particularly on the construction loan
side, we've had a real dip in our production. We want to
reverse that, and we're committed to reversing that. And
we believe the new products that we are proposing to you,
or at least giving you a heads-up that this is what we're
looking for, and coming forward for you in the business
plan in May, that we are confident that with these new
products and some internal changes and processing of the
Agency, we'll be able to get up to that loan production
expectation that's before you today.

The first new lending program we'd like to talk
about briefly is what we call our 30/15. And Ed Gipson
is going to describe that briefly.

MR. GIPSON: Yes, it's part of the new permanent
loan program. Basically, historically, we've had a
30-year amortization on our permanent loans with no right
to prepay. And more and more difficulties, the reality
is particularly with these tax credit deals, that after
you're 17, something has to be done to recapitalize the
project or get your equity investor out of the deal. And
so trying to meet the balance of both worlds, we've tried to work through all the details to provide the 30-year amortization, but prepayable after year 15. So that for those who need to get out, now have the option and a way to do so; and those who want to maintain their fixed-rate mortgage for the life of the loan, they can now stay. And there seems to be quite a bit of excitement about that. So we try to meet the difficulties and provide the flexibilities needed to the borrowers, and then maintain our traditional rates.

The second piece that's right behind that -- and I'll just tag right onto the -- is the architectural review. We've had years and years in different processes; but parts of the manual and things are rather old now. So we are currently in the process of identifying what is now important to us.

One of the things we're actually going to look for and provide better and more clear detail to everyone out there, is what those issues are. And the things that aren't our issues, we're going to stop --

MS. FRETZ-BROWN: Reviewing.

MR. GIPSON: -- providing the review over those.

So that, let each group manage their piece; but just focus on the pieces that are most important to us. And in addition, as part of that, we're actually going to
reach out. So we're going to go through -- we're doing our research with other HFAs and other groups out there.

We're talking to the architects who design these deals. We'll start with architects who we know more familiarly and are more friendly with, and we'll work with those who have had issues in the past, to actually get their input.

In addition, we will talk to the engineers and we will talk to the developers as we incorporate this scope. And once we get all that down, as well as talking to our internal staff -- and once we get all that down, we will go out and talk about, you know, how we got here and what this is all about and what we hope to accomplish by it; and also help to provide basically a resource and an understanding to those out there in the community. And we see a great deal of Multifamily deals. A lot of deals.

(Jan Boel entered the room.)

MR. GIPSON: And we have a great deal of information about common things that happen to each of these deals.

And so perhaps from all of this, you'll be able to get the value input of things that will help build the building for less money, avoid costly construction errors, and have materials involved inside the project that actually have a longer life, probably the same basic
costs as you would have had, anyway, but, actually, providing operating efficiency. So we look at providing a valuable resource.

MS. FRETZ-BROWN: Thanks. Predictability and value are really the touchstones for the changes that we're proposing in the architectural review process. And as I mentioned before, this is a huge activity, and I really commend the staff for taking it on with great vigor.

The second new product that we are proposing, we call -- really, for lack of a better term -- an AHP substitute. But it really is that.

One of our nemeses in construction lending has been the Agency's inability to access the Affordable Housing Program funds of the Federal Home Loan Bank System, and which puts us at a pretty significant disadvantage in construction lending, so -- which is why the AHP funds are typically brought in, for good reason.

We can't compete on a dollar to dollar, forgivable-loan basis with the Federal Home Loan Bank's program, but Laura will describe for you what we think we can do to get ourselves to be more competitive in that construction loan market.

MS. WHITTALL-SCHERFEE: I'd like to start by saying that we hope to come up with a little bit snazzier
name than "AHP substitute." But it is very descriptive of what we're actually trying to achieve.

We know that in addition to the changes that Edwin already discussed, that one of the issues is we need to come up with a program that is similar or substitutes for AHP.

We're still working on the general parameters, but some of the things that we're looking at include becoming a residual receipt lender on the AHP program. We feel that that's critical. We can't expect this loan to be a second mortgage with fixed payments. So we're looking at something that's along the lines of a $5,000-per-unit loan, up to perhaps a $375,000 cap with an interest rate, unlike AHP, of approximately 3 percent.

That would be using HAT funds, as we've talked about; but we also have an opportunity to perhaps use Agency FAF funds. And that will maybe help us make this rate a little bit more competitive. The 3 percent seems to be something that is achievable.

In addition, we would be a residual receipt lender, and we would be a junior -- in a junior lien position. We would step away from requiring that we be senior; and we would just be repaid on a pro rata basis using our residual receipt loan and comparing it to other residual receipt lenders. And that is probably the lien
position that we would be ready to accept as well. Whatever is commensurate with our dollar amount, compared with everybody else.

The goal is to use these three changes to make our construction lending program more attractive. And even though I gave you parameters, like interest rates and dollars per unit and anticipated maximums, we really expect to come back to you in May with something a little bit more concrete. Because one of the things that we're doing is, we're talking and working with our Finance Department, to make sure that while trying to create programs that make us even more competitive, that we're not walking away from money that we shouldn't be walking away from.

If this -- it's a 30-year loan. It's anticipated to be a 30-year loan; but it would tie in to the permanent loan, in that it would be either 30 years or paid when the permanent loan that we make is prepaid. Because the expectation is, there will be a minimum permanent loan amount that is required to take advantage of this AHP substitute program.

MS. FRETZ-BROWN: So that's the balance that we're still working at in terms of a significant incentive, but still maintaining the Agency's profitability in lending.
Thank you both.

And we're very hopeful. We've had a lot of discussions with nonprofit and for-profit agencies, with intermediaries and consultants; and we think that these are two sound products.

Do you want me to start with the homeless stuff?

Or do you want to --

MS. PARKER: I'll do homeless.

I think, as I mentioned earlier on, I talked to, several times, about the Governor's Homeless Initiative Phase I. And clearly that's one that Judy Nevis is well aware of because HCD is really the major partner with CalHFA and the Department of Mental Health in implementing this proposal with the use of Prop. 46 funds, MHP funds, and also through the Department of Mental Health, some of their Prop. 63 funds.

In developing the Governor's budget going forward, there was a discussion about trying to continue the work in the area of homeless. And right now, the homeless initiatives are really coordinated out of the Governor's Office of Planning and Research. Jan Boel, who is representing Sean Walsh today; and Sean has talked about it at a couple of our board meetings.

But there were some further discussions about homeless programs, particularly because with the
passage of Prop. 63 in November of 2004, the father of that initiative, Darrell Steinberg, has been talking at the committees, oversight committees of Prop. 63 about the utilization of Prop. 63 funds for creating permanent housing for chronic mentally ill. And so we have had some internal discussions between the Department of Mental Health and the California Housing and Finance Agency about the ability to see if we could produce some kind of a model to take advantage of these funds. And a proposal has been put together for consideration by the Governor's office. And we're at that point in time for the Governor's office to be making a decision about whether or not to announce this initiative.

So I've put it down here because it certainly would be a major workload and add to our production, but also add to the degree of complexities and difficulties of what the Agency would be trying to run and administer. And, you know, some of that will fall into the discussion of other considerations, at the end.

But I do want to let you all know that it is something that's being talked about. And if it is likely to occur, what I would propose to do at our next Board meeting in May, is to -- we've thought about doing it now -- but to ask Darrell Steinberg and our other colleagues to actually come and chat a little bit about
it, because it would be really a fantastic initiative.
We're talking about the opportunity, if we're able to do
this, to create in the next 20 years over 10,000
permanent units of housing for chronically mentally ill,
homeless.

MS. FRETZ-BROWN: That's huge.
Okay, thanks.
That's hard to follow.
The Multifamily Division at CalHFA also
supervises a number of the special-lending programs that
are discussed in the slide.
The first one to this, obviously, is the
continuation of the HELP program. This is a loan
program, two localities, for a variety of low- and
moderate-income housing. Overwhelmingly, about
90 percent of those loans to localities go for rental
housing that are very low-income households.

Just briefly, to date, the HELP program has lent
about $138 million to 97 different cities, counties,
redevelopment agencies, and housing authorities
throughout the state, which expect to produce 17,300
units. Again, 91 percent of them actually are
multifamily. Very affordable units.

It has been an extremely successful program.
We're looking forward to the repayments under that
program -- they are ten-year loans -- so that it can be self-supporting in the future, versus sustainable -- self-sustainable, like I say, in the future.

So, clearly, we are very interested in maintaining the volume of HELP activity, and are proposing the business plan not be maintained at 50 million a year.

The second one, the Habitat for Humanity program was a brand-new one this year. We put out our first notice of funding at the $5 million level. And this is a purchase program. We purchased seasoned Habitat loans under some very favorable conditions, where the local affiliate of Habitat International can repurchase those loans. If something goes bad, they can pay on those loans for a year before repurchase, or they can find a substitute borrower who assumes the loans.

The Agency under this program would also do the servicing for the local Habitat affiliate.

What this purchase program does, obviously, is give the local affiliates capital that they typically didn't have available. And so it's a very significant part of any capital campaign.

In the first round of funding, we received loan purchase requests for approximately 2 and a half million dollars. We expected more. We are contacting other
affiliates. And for a variety of reasons, some wanted to take a little more time in trying to figure out whether and how much of the loans they would like to be available for purchase. Others are really waiting until their capital campaigns come in the future. So we think this is a very good start.

It's an important partnership as well, with a significant element of nonprofit community.

The third program is new. We talked a little bit in the midyear board report, and that's the Residential Development Lending program. This is one where we're using 75 million of Prop. 46 funds that were originally designated to CalHFA for Mortgage Insurance. Actually, it was, I think, about 86 million; but 75 million basically was remaining. And it wasn't quite working as one would anticipate.

So those funds could roll over into what we call "Residential Development Loan Program." And they would be for loans to stimulate ownership housing that's affordable to low- to moderate-income folks in urban infill areas.

After a number of meetings and discussions with housing developers, as well as with local government officials, the program that we're considering -- and it will come forward in the business plan in May -- is a
loan to localities patterned after the HELP program. The
maximum loan being somewhere around $4 million, with a
four-year term. The purposes would be acquisition and
related predevelopment expenses. Again, ownership
housing, infill areas, it can be condominiums as well as
fee-simple properties. And there would have to be a
minimum percentage of those units in a development that
would be affordable to no more than 120 percent of area
median income.

And with that loan also would come a reservation
of our Down Payment Assistance funds. So our goal is to
make available $10 million. Upon this program's approval
in May, our goal would be shortly thereafter, to make
available $10 million by the end of May, the beginning
of June. And the program would be let out at the same
time as the HELP program, so that these two programs for
localities would basically be run -- would have parallel
tracks.

Again, as in the HELP program, we certainly
intend that these funds be revolving loan funds. And so
that ultimately our investment of HAT and Prop. 46 money
will revolve back and create a certain sustainability to
maintain these programs over time.

MS. PARKER: Just to add to what Bev is saying,
and to make sure that we foot and cross foot; we're
proposing a $15 million level of the Residential
Development Loan Program, so that our programs to local
partnerships would be $30 million, in totality.

MS. FRETZ-BROWN: Thanks.

MS. PARKER: Are there any questions for Bev on
any of the areas of Special Lending or Multifamily?

MS. NEVIS: I just had one question, and that is
the four-year term, is that the idea that then some other
financing will be found or --

MS. FRETZ-BROWN: Oh, absolutely. We -- the
conversations we've had with developers in localities is
that this up-front money with acquisition is the
toughest. And in many instances, the localities will put
in their money. Our money could help reimburse for some
of those costs, but basically it would keep those
projects moving more quickly. And so we see this for
acquisition and predevelopment. And it clearly would be
taken out --

MS. PARKER: The idea would be in that
particular case, that when the units are sold, they would
pay back all the instructions, land -- all those
different costs.

MS. FRETZ-BROWN: That's right.

MS. PARKER: Carol, I can't believe you're not
going to say something about the changes in our term.
MS. GALANTE: I was just going to ask you -- I don't have any questions. I have all kinds of comments on a number of these programs. I was kind of waiting until the end to comment, because I have -- and they're all positive comments. So whenever you're ready for comments.

MS. PARKER: Well, I think for now -- and, again, you know, whether you do it individually or we do it all at the end -- because, I mean, it is a zero sum game of where we put everything. And we'll finish, and then you can decide. But I think we are very, very excited about what the Multifamily staff has come forward with. And clearly, it's our intention to make sure that the Multifamily community knows CalHFA's and the Board's commitment to Multifamily.

So we can bring people up, if there are more questions.

But then let me switch and bring in -- have Chris Penny come up and talk about Asset Management. Many of you may or may not know, but Chris Penny is Margaret's second in command, and Margaret has had a family emergency.

So, Chris, if you want to walk the Board through -- because we have $4 million of HELP fund committed to -- or Housing Assistance Trust funds
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...comitted to Asset Management goals.

MR. PENNY: Yes, good morning. In terms of the
HAT loans that are set aside for Asset Management, what
our thinking is, is that as the Agency is in its thirty-
first year, we have quite a few projects that are getting
older, they're aging.

And typically, between the fifteenth and
twentieth year, projects need to be recapitalized, to
various degrees. And we have found in our portfolio that
we have a handful of these that we're trying to focus on,
assess their physical needs, and try to set aside some of
the HAT funds for rehabilitation, things that the
projects are unable to accommodate in the normal
replacement reserves that we require. So that's a big
goal of ours for this year, in addition to continuing
our contract administration for our approximately 150
Section 8 projects that we work with HUD. That work
brings in about $1.5 million a year in Section 8
administrative fees from HUD. And that's a major part of
our staff's time.

A special project that we're working on right
now, and hope to finalize and complete this year, is the
sale of our REO portfolio. We have six REOs around the
state. One of the REOs is being taken out of this
current offering because of some fire damage that the
project suffered recently. So we currently have five
being offered, and we have a broker that is helping us
market those properties. And hopefully by the next Board
meeting, we might have some more information on that.

MS. PARKER: If there's any questions of Chris?

(No audible response)

MS. PARKER: If not, I'm going to move to our
last slide, which is "Other Considerations."

Thank you, Chris.

MR. PENNY: Yes.

MS. PARKER: And I would ask Steve and Bruce if
he'd come back and join me.

Mike?

I will just segue, given Chris' comments on the
REOs, it does present an opportunity for the Agency to
look at what might be an initiative for the corpus of
those funds.

And Steve's going to talk a little bit about
that.

MR. SPEARS: Well, we're starting the process of
looking into putting all of our employees in Sacramento
under one roof. As you probably know, we're in the
Meridian Building, we're also in the Senator Hotel. Both
those leases expire simultaneously, so the good planning
of our administrative folks, and that occurs in about
three years. And so the idea is to try to get everybody under one roof.

We're starting this process. We're going to have some consultants help us sort through the issues and help us sort through the numbers, the economics, of build and buy versus lease, and that sort of thing.

And there are a number of different ways to finance it. At present, bond financing requires some legislative changes. There's REO sale proceeds that might possibly be used towards this sort of thing.

And, of course, you could use something on the order of long-term tenant credit lease. All those things are being sorted out at this point.

We just wanted to alert you to the fact that this is on the horizon. It's a really important project for us because we really would like to have those in Sacramento under one roof. And it will avoid colds and the flu by trooping back and forth from the Senator and the Meridian building, if nothing else.

MS. PARKER: Some of you who have been around CalHFA for many, many years, and when it was CHFA, the prior executive director, Kearney Hodge, actually considered the purchase of the Senator Hotel. And, you know, that may be a little bit like people's comments about some of our other elected officials who have had
visions of, you know, getting satellites and being a little bit ahead of their time. But I think it is something that we now want to take a look at and see from an economic standpoint if it makes sense.

Michael, are you going to do the IT?

MR. HOWLAND: Yes, my name is Mike Howland; and I'm the director of Information Technology for the Agency.

During the last year, the Agency has engaged in some very extensive reviews of our IT organizational and technology infrastructure, and also the technologies that support our various business operations.

As a result of those reviews, we have initiated several efforts to upgrade -- update, if you will -- our organizational and technology infrastructures, as well as actually initiating several projects to address the future technology needs of our program areas. Among those, are the one that's on the slide, which is to service debt management. But we've also initiated projects for Multifamily, Homeownership, and Fiscal Services as well.

We have a lot of very interesting and challenging Information Technology initiatives that are going on in the Agency right now.

MR. SLATER: Pass the microphone around here.
The third bullet there, or arrow, relates to product profitability. That was an outgrowth of this Resource Allocation Study that we did during 2005.

There were two things that came out of that, that we wanted to spend additional time on: One was to make sure the Agency had adequate capital that could be placed in reserves for rating-agency purposes. Because many of the real-estate-related risks in our programs are set aside -- we set aside specific amounts of capital for those purposes. So we're underway with that process.

The other thought that came about, was that we should analyze a combination of loans that we put together into a product, be it for Homeownership purposes or Multifamily purposes.

My staff and I worked on that, and we had our first meeting about that -- I would guess about a month ago. We looked at two or three combinations. We need to do many more combinations, to look at the profitability.

The initial results were -- and I don't think it would be any surprise -- that we make more money on a long Multifamily project, one that's out there for 30 years, than we do on a single-family Homeownership loan with today's prepayment speeds is only around for three, four, or five years.

On top of that, we wanted to layer on the
operating expenses of the overhead of the Agency to
initiate that product and to oversee that loan or product
over its lifetime. So that's an ongoing initiative that
we have.

Of course, at the end, we will be measuring
product profitability versus public purpose benefit,
trying to find the right balance for all of our programs
going forward.

Oh, the next one is mine, too.

The investment management strategy is something
that we've been talking about. The Board of directors
established an investment policy for this Agency, I'm
guessing it's ten or twelve years old by now. I think
what this really relates to is that we want to go back
and revisit that policy. That policy really documented
what we were doing at the time. And primarily our
investment strategies have been to use the State
Treasurer's investment pool and to go out for bid for
guaranteed investment contracts, when we issue bonds.

I think in today's day, it ought to be a
broader -- we ought to look at different investment
alternatives. We ought to perhaps segment pieces of the
balance sheet and say that maybe we can go longer on the
yield curve, perhaps pick up a couple of additional basis
points.
So that's something that I would think, over the next 12 to 18 months, we'd come back before the Board with a revised policy and perhaps an investment management strategy.

MR. SPEARS: For Bill's benefit, part of that process will be coming over to talk to Dan Dowell and the staff, and really explore this. Because there are a lot of different ways to do this. We could have something separately managed over there or farm something out. But there's a lot yet to be studied about it.

MS. PARKER: Mr. Morris?

MR. MORRIS: The comment would be, 12 to 18 months where you have the investment management strategy, I think that's really important. And I think maybe that's something that we ought to try to accelerate and not wait 12 to 18 months to address that.

MR. SLATER: I was giving myself a pretty big cushion.

MR. MORRIS: We'll be off the Board by then.

ACTING CHAIR SHINE: Of course, you noticed.

MR. SLATER: There's two aspects to it, and I didn't bring up the other, is that we can certainly revisit the policy, that's the easy part of it. We also, as a part of the IT initiatives, would like to build some additional tools for us to better manage cash and
investments within the Agency. And they do at some point kind of tie in together.

MR. MORRIS: Maybe we could --

MS. PARKER: Yes, I think the point here is that we're starting in this business plan when we come back to you and talk about our operating expense. We're building, you know, these things in -- you know, we're starting now to essentially add them into our overall management information infrastructure. So we will -- to the extent that resources permit, which will segue into my next discussion, you know, it's certainly -- we are self-motivating ourselves on all of these kinds of enhancements, because we think that they are crucially needed to manage the complexity of the funds that we have, and certainly be available for the Board for your decision-making process.

MR. MORRIS: Would it help you, as you develop these tools, to review the investment -- to review these management -- excuse me, the investment management strategies earlier, so that that can be part of the input, as they are developing the tools? In other words, I just think that that's something we should address earlier.

I understand the need to coordinate that with the tools that you're developing, but I think it's
something we should address earlier.

MS. PARKER: I think we'll come -- let's take that feedback.

Again, what we're looking for from you today really is the feedback for where we should prioritize and concentrate. So these are all very helpful discussions to us.

Let me bring up the last line item here because in some respects it is the most significant item to everything that we have talked about in the last 15, 20, 30 minutes.

You will see at your seats that our most recent rating agency analysis from S & P is on our G.O. bond capacity, and it's a very good rating. We've always, you know, had very good rating analysis, very comprehensive.

If you read through the paragraphs on management, you will see that this is the first time, although the rating agency, S & P congratulates us on the competency of our staff -- and I would say, you know, with the loss of some of the significant people we have, the corpus of people who are here today in the Agency are doing outstanding work. But it is really -- is that enough, given the complexity and the degree of difficulty that we have before us?

And if you read that paragraph, you will see
that the rating agency makes a notation about the loss of
our staff and the need to recruit and retain and the need
to be competitive in the market that we have to recruit
and retrain from. And the problems that we have to be
competitive, given our compensation that is dictated in
the state and our Agency by the Governor's office and the
Department of Personnel Administration.

We have talked to them -- in fact, Steve, as I
mentioned, his paperwork is over at the Agency -- the
Governor's office, and it has been since November. And
the reason why -- it's not that they don't know Steve and
want to hire him, but it is a salary issue that we are
debating about. And the recruitment of the director of
Multifamily, the director of Mortgage Insurance and the
director of Homeownership are all going to be based on
what compensation.

We have hired a recruiting firm to help us. The
recruiter has essentially told us that the existing
salary that we have to offer will not provide the level
of competency that we need.

So we are in a discussion right now with the
Governor's office about whether or not we can continue
to do the kinds of complexity of programs we had done in
the past, and what will be our future.

Now, we have combined this at the moment with
this initiative of Homeless Phase II. And, in fact, we
have told them in order to be able to implement that
program, even though some of it's special-need funding,
some of which we have done in the past, that we do not
have the resources in the Agency to run that program
unless we can go out and hire them.

And so we have negotiated and talked about
legislation that we would need not only to set that
program up, but also legislation to allow us to have the
flexibility to have those salaries be set, based on some
survey of our marketplace in order to be able to get the
kind of competent people, and offer the rating agencies
the security of knowing that that kind of competency
would be in the Agency over the long run.

I do want to embarrass him a moment and point
out Stan Dirks being here from Orrick, our bond counsel.
Stan has worked on this initiative with me and
particularly helped us craft what would be an initiative
on the homeless side, but also what we would need on the
compensation side; a structure that would allow the
Governor's office to have involvement, but the salaries
would be set by the Board based on salary survey
methodology approved by the Department of Personnel
Administration.

So I tell you all this because we have put
before you a business plan that is presumed we will be
able to hire the people that can run these programs.

If we do not have those, then we will be coming
back to you in May with something that will be completely
different than this. It will have substantially plain
vanilla Multifamily kind of lending programs, and
substantially reduced Homeownership lending programs,
because we will not have the people to keep developing
these kinds of innovative programs in the marketplace and
deal with the -- particularly the credit controls that
we'll need in order to maintain the risk of the Agency.
So I want to leave that with you.

We have presented the happy scenario, because
that's what we feel we need to do. But at some point in
time, I need to -- just for the Agency to continue --
deal with the reality that if I don't have those kind of
staff, what the rating agency's analysis will be on us,
and what we can actually produce for our borrowers and
our partners, you know, in the housing industry.

ACTING CHAIR SHINE: Thank you very much.

And kudos to all of you. It's a wonderful
presentation. It gives us a good under-an-hour thumbnail
sketch of the future, potentially. And very complete.
And thank you.

Any comments or questions or ideas from the
Board?

Yes?

MS. GALANTE: A couple of comments.

I think this was an incredibly thoughtful plan that you all have outlined, and clearly it has taken a lot of internal conversation and evaluating where you are and where you want to go to make all this happen. And I just think some of the ideas that I've seen are really great.

I want to say that the HELP program has been fabulous. I don't know how long now it's been around, Terri; but I --

MS. PARKER: I think we're seven years?

MS. FRETZ-BROWN: Eight years.

MS. PARKER: Eight years.

MS. GALANTE: I would be remiss if I didn't say I was at the California Redevelopment Association annual awards luncheon yesterday in Monterey, where our Mandella Gateway project got an award that has CalHFA financing. But I think probably four of the various categories had HELP financing, because they list kind of all the financing at the bottom. It's a very well-used program.

And I think adding that residential for the for-sale component is just absolutely right on. I think communities are going to love it.
I think the AHP substitute, my comment is, I wish you could be the Federal Home Loan Bank and do a real AHP substitute. I think the idea of it in terms of adding to your business is really great.

(Mr. Morris left the hearing room for the day.)

MS. GALANTE: I would say, I would caution not to emulate or mirror some of the problems that exist in the AHP program. Because we have gotten to a point where we didn't really want to use it anymore, because for the small amount of money, the amount of requirements put on you by the Federal Home Loan Bank -- you know, empowerment-this and, you know, services-that is just so over the top, it's not worth $300,000. So you have to be really, really desperate at this point to take AHP.

So I think if you can find a substitute program without all the headaches, it will be a real competitive service. So I just want to add that.

So there's a lot of other things here that you mentioned that I think are great.

And my last comment is, if there's anything that we as a Board need to do to help you on this competitiveness, then, you know, I'd love to hear that. Because I do -- as a nonprofit leader, I face some of the same challenges. And I just think this one has to be solved for the Agency to be effective.
MS. PARKER: I agree, Carol.

You know, I've told everyone that I think that this -- we have done everything that we can, and we have been very fortunate in the recruitment that we've done in the last couple years. But we have just come to a point in time where we've hit the wall. And we have to solve that now, particularly because, you know, we have to provide predictability in our marketplace.

We have been very fortunate with having, in the interim, Bev Fretz-Brown work for us and continue our efforts in the Multifamily side. But Bev did this as a favor, and committed to only a few months. So we're going to be losing -- and we don't have the ability to hire staff on contract to do, you know, the day-in and day-out work. So if we can't solve the salary problems, we will change the business that we do. And part of it is just flat-out an education process. There is a lot of people who work in state government, they don't really understand what we do. They think we're the same as the Infrastructure Bank. They think that we're the same as, you know -- they don't understand that we are not backed by the full faith and credit of the State. And so it's really the investors who we report to, not the taxpayers who pay our salaries. But the problem is that state salaries are not competitive.
And, you know, when we look at our salaries relative to our sister housing finance agencies and the rest of the country, my colleagues have told me that they're behind me because California is bringing down the overall averages considerably. And yet you look at where we are relative to them. We're at the top of complexity with the number of outstanding swaps we have, with the -- you know, we are a $9 billion financial institution.

So we're going to see, and you can all keep us in your prayers; but I think what we're trying to do is make the education, make the best comments that we can. And also, you know, what we have done is certainly demonstrated on the merit.

Nobody else in state government could have done the Bay Area Housing Plan. You know, we're saving the State of California millions of dollars in programs for the developmentally disabled because of CalHFA. The Infrastructure Bank couldn't do that.

So, again, we need to hear: Are we on the right track with what we're proposing to use our HAT funds for? Anything -- you know, I've talked to John Courson, who last year wanted to amend so that we had more money for HELP, and he signed for this amount of money. But if you guys are, you know, taking into consideration the comments of Mr. Morris and Ms. Galante, we'll come back
and we'll be preparing a business plan that will further be built on these premises, unless I have to come back and essentially give you something that will change, given the realities of the internal resources that the Agency has.

ACTING CHAIR SHINE: I would venture to say that given what we've heard here today and the few comments, that everybody kind of would like to see you get to the next step on this program.

Am I speaking out of line? Is everybody here on the Board okay on that? Okay.

MS. PARKER: I think our real concern is that we really hate to -- and that's why we haven't done it -- to bring you an alternative business plan. I thought about it: Should I bring it, too? I think we're in denial. We don't want to do that.

But I think we recognize -- and you all are very mindful -- once we get out of the competitive lending market, even if we were to get, a year from now, the ability to hire people, it will take us so long to get back in. So that's my biggest fear.

With that, Mr. Chairman, I think we think move on to the final portion of the meeting, which is the closed session.
Item 7. Reports

ACTING CHAIR SHINE: Okay, there's some reports as part of your public package, if anybody has any questions on that.

--00--

Item 8. Discussion of other Board Members

Item 9. Public Testimony

ACTING CHAIR SHINE: Is there any other discussion for the Board before we go into private session?

(No audible response)

ACTING CHAIR SHINE: Okay, then we're going into closed meeting now.

MR. HUGHES: We have to have Item 9, which is Public Testimony, just to make sure that there isn't any out there.

ACTING CHAIR SHINE: I think I just asked them for that, and nobody said they wanted to speak. So that's why I decided it's okay to go into closed session.

MR. HUGHES: That's fine.

ACTING CHAIR SHINE: Am I incorrect?

MR. HUGHES: No, that's fine. I just wanted to confirm that.

I did want to put one comment on the record before we go into closed session. We don't transcribe
the closed sessions, and I wanted to make sure this was on the record.

We have two different matters to discuss in closed session. The one that's listed as number one, 
California Housing Finance Agency v. Gateway Apartment Partners, is not a matter that's come before the Board before. I wanted to say that there is a conflict of interest issue that is involved with this, perhaps indirectly, but that we worked on extensively.

The owners of that project, Gateway Apartment Partners, are the Agency's borrower. Adjacent to that property is a property owned by BRIDGE Housing, which, of course, Ms. Galante is an officer of.

And BRIDGE has no involvement with Gateway Apartment Partners or the project, the Ridgeway Apartment Projects. However, the reason that this litigation exists, is that there are construction defects on the Ridgeway Apartment side.

The BRIDGE side -- different parcels, different borrowers, different owners. The BRIDGE side was constructed at the same time and shares some of those construction defects. And there has been construction-defect litigation pending in Marin County Superior Court, in which both BRIDGE and Gateway Apartment partners have participated. Those cases were
consolidated.

So I have discussed the potential conflict
issues extensively with BRIDGE's attorney. And as a
result of that, Ms. Galante has scrupulously avoided any
participation in the Ridgeway controversy from the BRIDGE
side.

BRIDGE was also proposed to be a potential
manager or a potential owner of a new entity that would
acquire Ridgeway. That's now off the table.

I wanted to mention that I have advised
Ms. Galante today that I do not think that there is --
because there is no action to be taken, nor any action
contemplated to be taken by the Board in this case, I
don't think there is a conflict of interest in terms of
attending the closed session, nor do I think there's an
attorney-client privilege issue that would be seriously
implicated.

My understanding from talking to Ms. Galante is
that she has elected not to attend the portion of the
closed session part of the session regarding the first
matter, the Gateway Apartment Partners, and will attend
the other part, relating to our HC case.

So my request is that we take those in reverse
order, so that we can deal with the second one first, and
then have Ms. Galante leave.
Does that correctly state -- it's long-winded.

MS. GALANTE: Now that you've heard the whole thing. Yes.

MR. HUGHES: But I wanted to make sure that was on the record, to make sure it was clear to everyone what sort of the underlying ground rules have been on this.

And I think with that, we can go into closed session.

--000--

Item 10. Closed Session

(Closed executive session was held from 12:03 p.m. to 12:32 p.m.)

ACTING CHAIR SHINE: We've reconvened out of executive session; and we've adjourned the meeting.

(Proceedings concluded at 12:32 p.m.)

--000--
REPORTER'S CERTIFICATE

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

That the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

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

In witness whereof, I have hereunto set my hand on March 14, 2006.

_________________________
Daniel P. Feldhaus
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter
CALIFORNIA HOUSING FINANCE AGENCY  
Final Commitment  
Lion Creek Crossings  
Oakland, Alameda County, CA  
CalHFA # 06-003 C/N

This is a final commitment request. Security for the loans will be leasehold interest in the 2.49-acre site and 106 family units located at 928-998 66th Avenue in the City of Oakland. Creekside Housing Partners, L.P., a California limited partnership, will own the improvements. Lion Creek III, LLC, a California limited liability company and Related/Oakland Coliseum III Development Co., LLC, a California limited liability company are its General Partners.

Lion Creek Crossings is a new construction project and is the third phase of the Lion Creek Crossings HOPE VI Master Plan development (formerly known as Coliseum Gardens HOPE VI Master Plan development).

<table>
<thead>
<tr>
<th>LOAN TERMS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Construction</strong></td>
</tr>
<tr>
<td><strong>First Mortgage</strong></td>
</tr>
<tr>
<td>Interest Rate</td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Financing</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Agency financing is subject to the assignment by the borrower of tax credit equity and all rights under non-Agency financing commitments.

<table>
<thead>
<tr>
<th><strong>Permanent</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Mortgage</strong></td>
</tr>
<tr>
<td>Interest Rate</td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Financing</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Second Mortgage</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Financing</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Third Mortgage</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Financing</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

April 20, 2006
OTHER FINANCING

PERMANENT FINANCING

<table>
<thead>
<tr>
<th>Source</th>
<th>Type</th>
<th>Loan Amount</th>
<th>Term</th>
<th>Interest Rate</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCD - MHP</td>
<td>Loan</td>
<td>$9,028,478</td>
<td>55</td>
<td>3%</td>
<td>.42% Payment</td>
</tr>
<tr>
<td>Oakland Housing Authority – HOPE VI</td>
<td>Loan</td>
<td>$2,273,901</td>
<td>55</td>
<td>0%</td>
<td>Residual Receipts</td>
</tr>
<tr>
<td>City of Oakland</td>
<td>Loan</td>
<td>$4,600,000</td>
<td>55</td>
<td>3%</td>
<td>Residual Receipts</td>
</tr>
<tr>
<td>AHP</td>
<td>Loan</td>
<td>$525,000</td>
<td>30</td>
<td>0%</td>
<td>Deferred/Forgivable</td>
</tr>
</tbody>
</table>

The Housing Authority of the City of Oakland (OHA) owns the site and will provide a ground lease to the Partnership, subject to CalHFA’s review and approval. The lease will be wholly prepaid and the term is anticipated to be 65 years. CalHFA’s Regulatory Agreement and Deeds of Trust will be secured on the leasehold interest.

HUD, through the OHA, is providing a HOPE VI loan to the project. HUD will record a Regulatory and Operating Agreement (ROA) on the fee interest. The ROA will restrict 37 units as public housing units and under the terms of the Annual Contribution Contract will provide operating assistance; these are referred to as "ACC Units". The ROA will be senior in priority to CalHFA’s Regulatory Agreement and Deeds of Trust.

HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

The project is expected to receive a commitment of 16 Section 8 Project-Based Vouchers (PBV) from OHA. The project will use these vouchers for twelve (12) two-bedroom units and four (4) three-bedroom units at 50% area median income (AMI) to increase the affordability of the units. The Agency has required a transition operating reserve of $50,000 to facilitate the transition to non-subsidized rents in the event that the contract is not renewed by HUD, or there is a change in the amount of vouchers issued by HUD.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract. HUD approval of the vouchers, via an Agreement to Enter into a Housing Assistance Payments Contract (AHAP), is required to be in place prior to closing the construction loan. The term of the HAP is required to be ten years to coincide with the CalHFA first mortgage.

The OHA is in the process of issuing a “backstop” commitment for the PBVs. This commitment will be required prior to construction loan closing should the PBVs not be allocated to the project. The commitment is subject to Agency review and approval.
PROJECT DESCRIPTION

Project Location

- The project is located at 928 through 998 66th Avenue in the City of Oakland. The nearest cross streets are 66th Avenue and San Leandro Street.
- The property is located in the Coliseum Central District, approximately one-half mile to the Alameda-Oakland Coliseum and three-quarters mile to Interstate 880.
- Surrounding uses include: light industrial-commercial to the north; future park and Phase I residential buildings to the south; Phase II residential buildings and light industrial-commercial across San Leandro to the west; and a fire station and single-family residential to the east.
- The property is part of the Coliseum Transit Village that will ultimately involve construction of mixed-use (housing and retail) at the existing Coliseum Bart Station, within waking distance of the site.
- The project is the third phase of the HOPE VI Master Plan development that replaces public housing units dating back to the 1940s. The project received a $34.5 million HOPE VI grant and CalHFA has provided financing for all three phases of the Master Development – totaling 367 residential units.
- Surrounding amenities include a public elementary school and a middle school within one-quarter mile of the site, a medical clinic and several grocery stores within a half-mile radius. A 1.3 acre park adjacent to the site will be available to project residents. The City of Oakland is currently planning for an expanded 5.7-acre park in the center of the Master Plan development to serve residents.

Site

- The approximate 2.5 acre rectangular site consists of two parcels.
- The project site was previously used as a park.
- The project has received all entitlements, including General Plan Amendment, Rezone and Planned Unit Development (PUD) approvals. (The project is currently in building plan check.)

Improvements

- The project will consist of 105 family units and one manager’s unit.
- Approximately 15,000 square feet of community space, including social service, recreation (playground and tot lots), and community rooms are provided in the Phase I and II developments. A Joint Use Agreement will be executed to provide all residents in the Master Plan development with shared access to community facilities.
- The buildings will be in two forms: wood-frame construction over concrete podium garage and slab-on-grade wood-framed buildings. The podium is configured as two separate structures with secure pedestrian and visitor access at their convergence.
- The unit mix consists of 13 one-bedroom, 34 two-bedroom, 45 three-bedroom and 14 four-bedroom units. The manager’s unit is two-bedroom.
- The unit’s types are both flats and town homes.
- A total of 106 parking spaces will be provided: 84 in the two garages and remainder (22 spaces) in surface parking.
Off-site Improvements

- Off-sites are being financed separately by the City of Oakland and the Oakland Housing Authority.

Relocation

- A relocation plan was completed prior to start of Phase I. No additional actions are required as part of this project.

MARKET

Market Overview

- The Market Area is defined as the southwestern portion of the City of Oakland, and specifically the area bordered by High Street to the northwest, MacArthur Boulevard to the north, Interstate 580 to the east, 98th Avenue to the south, and Doolittle Drive to the west.
- The Market Area population has increased at a rate of 0.1 percent between 2000 and 2005, slower than the City of Oakland (0.6%) and Alameda County (0.9%).
- The population in the Market Area (estimated at 92,831) is expected to increase slightly in the next two and five year periods.
- The largest age group in the Market Area is persons under age 15 (27.1%), followed by persons between 25 and 34 (14.1%) and ages 35-44 (14.0%). These demographics are also reflected across the City of Oakland statistics.
- Currently there are 12,875 renter households in the Market Area, representing 46.6 percent of all households.
- Over fifty percent (53.8%) of households in the Market Area are very low-income, and approximately twenty percent (20.5%) are low-income.
- In the City of Oakland, nearly 35 percent (34.6%) of renter households are paying more than thirty percent of their income on housing. In the lowest income groups, this is most pronounced with over 70% (72.5%) of households earning less than $20,000 overpaying for shelter.

Housing Supply and Demand

- The overall vacancy rate in the Market Area is 1.0 percent for income-restricted housing and 1.9 percent for market-rate housing. The overall vacancy rate for all rental housing is 1.6 percent and is indicative of an extremely tight market.
- Waiting lists for affordable developments in the Market Area were characterized as extremely long, with several hundred applicants at some properties.
- At the time of market entry in 2007, there will be a demand for 2,641 affordable units in the Market Area with income targeting between 40 and 55 percent of AMI.
- There is demand for 733 one-bedroom; 1,300 two-bedroom, 482 three-bedroom, and 86 four-bedroom units, translating into a capture rate of 2.6 percent.
PROJECT FEASIBILITY

Estimated Lease-up Period

- The estimated lease-up period for the project is four months; the Agency has incorporated a lease-up period of six months in its construction loan term.

ENVIRONMENTAL

- The subject site was previously a public park.
- A Phase I Environmental Assessment report and Phase II studies on the entire Coliseum project site were conducted on March 5, 2004 to evaluate soil and ground water issues. The Department of Toxic Control Substances has reviewed the Removal Action Work Plan (RAW) for the entire property and will have responsibility for issuing clearances for all the specific development phases, as remediation activities are completed.
- URS has reviewed the reports and will issue a clearance report with respect to the scope of the investigation as well as a remediation plan identified in the Phase II report, prior to construction loan closing.
- An updated site-specific Phase I will be required prior to construction loan closing.
- A Geotechnical Report was prepared March 22, 2005. The property exhibits clay and liquefiable sand zones. Mitigation includes imported fill, and reinforced footings and foundations.
- The Borrower has requested an earthquake insurance waiver, and a seismic evaluation is underway. Any design modifications required as a condition of the earthquake insurance waiver will be incorporated in the final plans and specifications approved by CalHFA.

ARTICLE XXXIV

The borrower's attorney has provided an opinion letter stating that the project satisfies the requirements of Article XXXIV, based on the Housing Authority's allocation of their outstanding referendum authority to this project. The opinion is under CalHFA legal review.

DEVELOPMENT TEAM

Borrower and Developers

Creekside Housing Partners, L.P.

The limited partnership is a joint venture between East Bay Asian Local Development Corporation (EBALDC) and the Related Companies. The specific entities that comprise the partnership are Lion Creek III, LLC, a California limited liability company and Related\Oakland Coliseum III Development Co., LLC, as described below.

- Lion Creek III, LLC is an affiliation between OHA and EBALDC, a California nonprofit corporation. EBALDC, established in 1975, is the co-developer of Lion Creek Crossings. ELBADC has acquired and rehabilitated several historic properties including Swan's
Marketplace, the Asian Resource Center and Madison Park Apartments in Oakland. EBALDC’s development activities include affordable housing, mixed-used projects and community facilities. EBALDC has developed 784 units of rental housing, 97 for-sale single family homes and co-housing condominiums, and over 133,000 square feet of retail and office space including two child-care centers. The Oakland Housing Authority will have a limited role in the LLC, as is necessary to meet the HOPE VI/public housing requirements. The Agency has also financed Swan’s Market and the recently-approved financing for Seven Directions, both of which were developed by EBALDC.

- RelatedOakland Coliseum III Development Co., LLC is affiliated with the Related Companies of California. The Related Companies was established to focus on the acquisition and development of government-assisted and market-rate multi-family housing. In the last five years, it has developed over 4,739 multifamily units in fifteen projects throughout California, including five projects with tax-exempt bonds proceeds. The Related Companies LP, a privately held New York-based development and financial services company, has developed over 30,000 units of multifamily housing, 3.5 million square feet of office and retail space, and has financed the development of over 110,000 apartments throughout the United States.

Management Agent

Related Management Company

- Related Management Company (RMC) will provide management services to the project. RMC currently manages 114 properties with over 18,500 units of rental housing throughout California, New York, New Jersey, Pennsylvania, Illinois, the East Coast and the southern states. RMC’s portfolio consists primarily of affordable housing projects. RMC currently manages ten projects that have been financed by CalHFA with over 2,800 units.

Contractor

Cahill Contractors, Inc. (Proposed)

Cahill Contractors, Inc. (Cahill) is the proposed builder for the project and brings the benefit of experience as the contractor on the first two phases. Incorporated in 1923, Cahill has been building affordable housing projects for the past 14 years and is currently constructing seven affordable housing projects totaling over 1000 units. Cahill will post a 100% performance and payment bond for this project.

Architect

Pyatok Architects, Inc.

Pyatok was established in 1984 by Michael Pyatok, FAIA, and has grown to include five other principals, bringing a combined total of 150 years of architectural and planning experience. Staffed with 30 professionals in its Oakland and Seattle offices, the firm focuses on community planning, affordable housing and higher density, mixed-use developments. It has won over 100 design awards for its projects. Pyatok was responsible for the Master Plan for Lion Creek Crossings and designed Phases I and III.
PROJECT SUMMARY

Project: Lion Creek Crossings
Location: 66th Avenue & Lion Way
City: Oakland
County: Alameda
Zip Code: 94621

Developer: EBALDC
Partner: Related Development
Investor: MMA Financial

Project Type: New Construction
Occupy: Family
Total Units: 106
Style Units: Townhomes/Flats
Elevators: Yes
Total Parking: 106
Covered: 84

No. of Buildings: 8
No. of Stories: 3
Residential Space: 103,968 sq. ft.
Office Space: 0 sq. ft.
Commercial Space: 0 sq. ft.
Gross Area: 115,043 sq. ft.
Land Area: 104,979 sq. ft.
Units per acre: 44

CalHFA Construction Financing

<table>
<thead>
<tr>
<th>Amount</th>
<th>Rate</th>
<th>Term (Mths)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$22,585,000</td>
<td>5.72%</td>
<td>22</td>
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</table>

Permanent Sources of Funds

<table>
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<tr>
<th>Source</th>
<th>Amount</th>
<th>Rate</th>
<th>Years</th>
</tr>
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<tbody>
<tr>
<td>CalHFA First Mortgage</td>
<td>$3,815,000</td>
<td>5.70%</td>
<td>40</td>
</tr>
<tr>
<td>CalHFA Section 8 Increment</td>
<td>$475,000</td>
<td>5.50%</td>
<td>10</td>
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<tr>
<td>CalHFA FAF</td>
<td>$530,000</td>
<td>3.00%</td>
<td>40</td>
</tr>
<tr>
<td>HCD/HP</td>
<td>$8,028,478</td>
<td>3.00%</td>
<td>55</td>
</tr>
<tr>
<td>Oakland PHA HOPE VI</td>
<td>$2,273,901</td>
<td>0.00%</td>
<td>55</td>
</tr>
<tr>
<td>City of Oakland - CEDA</td>
<td>$4,600,000</td>
<td>3.00%</td>
<td>55</td>
</tr>
<tr>
<td>AHP</td>
<td>$525,000</td>
<td>0.00%</td>
<td>30</td>
</tr>
<tr>
<td>Income from Operations</td>
<td>$0</td>
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<tr>
<td>GP Equity</td>
<td>$804,284</td>
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<td>Deferred Dev. Fee</td>
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<tr>
<td>Tax Credit Equity</td>
<td>$19,284,684</td>
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Construction Valuation

<table>
<thead>
<tr>
<th>Investment Value</th>
<th>Appraisal Value Upon Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>$34,600,000</td>
<td>Restricted Value $6,025,000</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan / Cost</th>
<th>Loan / Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>58%</td>
<td>65%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan / Cost</th>
<th>Loan / Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.50%</td>
<td>8.0%</td>
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CalHFA Fees and Reserve Requirements

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<thead>
<tr>
<th>CalHFA Loan Fees</th>
<th>Amount</th>
<th>Required Reserves</th>
<th>Amount</th>
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<tbody>
<tr>
<td>CalHFA Perm Loan Fees</td>
<td>$19,075</td>
<td>CalHFA Operating Expense Reserve</td>
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<tr>
<td>CalHFA FAF Loan Fees</td>
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<td>Section 8 TOR</td>
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<td>CalHFA Section 8 Loan Fees</td>
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<td>New Construction Repl. Reserve</td>
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<td>CalHFA Construction Loan Fees</td>
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<tr>
<td>CalHFA Inspection Fees</td>
<td>$24,000</td>
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Construction Loan - Guarantees and Fees

<table>
<thead>
<tr>
<th>Description</th>
<th>Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completion Guarantee</td>
<td>LOC 10% Contract or Guaranty 100% Contract</td>
</tr>
<tr>
<td>Contractors Payment Bond</td>
<td>100% Contract</td>
</tr>
<tr>
<td>Contractors Performance Bond</td>
<td>100% Contract</td>
</tr>
</tbody>
</table>

Date: 4/14/2006
Senior Staff Date: 4/20/06
### UNIT MIX AND RENT SUMMARY

#### Total Unit Mix

<table>
<thead>
<tr>
<th># of Units</th>
<th>Unit Type</th>
<th># of Baths</th>
<th>Average Sq. Ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>1 Bedroom Flat</td>
<td>1</td>
<td>619</td>
</tr>
<tr>
<td>34</td>
<td>2 Bedroom Flat</td>
<td>1</td>
<td>852</td>
</tr>
<tr>
<td></td>
<td>2 Bedroom Townhome</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>3 Bedroom Townhome</td>
<td>2</td>
<td>1,132</td>
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<tr>
<td>14</td>
<td>4 Bedroom Townhome</td>
<td>2</td>
<td>1,374</td>
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<tr>
<td></td>
<td>5 Bedroom Townhome</td>
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<tr>
<td>106</td>
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</table>

#### Number of Regulated Units By Agency

<table>
<thead>
<tr>
<th>Agency</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>55%</th>
<th>Unrestricted</th>
<th>Total</th>
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<tbody>
<tr>
<td>CalHFA</td>
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<td></td>
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<tr>
<td>Tax Credits</td>
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<td>25</td>
<td>23</td>
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<td>1</td>
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<tr>
<td>City of Oakland</td>
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<tr>
<td>OHA HOPE VI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>69</td>
<td>106</td>
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<td>MHP</td>
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<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Restricted Rents Compared to Average Market Rents

<table>
<thead>
<tr>
<th>Median Income Rent Levels</th>
<th>Units Restricted</th>
<th>Restricted Rents</th>
<th>Avg. Market Rate Rents</th>
<th>Dollars Difference</th>
<th>% of Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Bedroom</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>0</td>
<td>$0</td>
<td>$925</td>
<td>$0</td>
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<td>30%</td>
<td>0</td>
<td>$0</td>
<td></td>
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<td>0%</td>
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<tr>
<td>40%</td>
<td>6</td>
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### Sources and Uses of Funds

#### Sources of Funds

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<th>Funds in at Permanent ($)</th>
<th>Total Development Sources</th>
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<td>Construction Only Source 3</td>
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<td>CalHFA FAF</td>
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<td>530,000</td>
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<td>2,273,901</td>
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<td>4,600,000</td>
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<td>AHP</td>
<td>525,000</td>
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<td>Income from Operations</td>
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<td>GP Equity</td>
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<td>25,654,697</td>
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#### Total Sources: 38,983,901 25,654,697

#### (Gap)/Surplus

- **Total Development Sources**
  - Total Sources: 42,053,998
  - Sources per Unit: 396,732
  - %: 100%

### Uses of Funds

#### Loan Payoffs & Rollovers

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#### Acquisition

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<td>Prepaid Lease Payment</td>
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<td>Demolition</td>
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<td>Legal - Acquisition Related Fees</td>
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<tr>
<td><strong>Subtotal - Land Cost / Value</strong></td>
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<tr>
<td>Existing Improvements Value</td>
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<tr>
<td>Off-Site Improvements</td>
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<tr>
<td>Other</td>
<td>-</td>
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<tr>
<td><strong>Total Acquisition</strong></td>
<td>305,000</td>
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#### Rehabilitation

<table>
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<tbody>
<tr>
<td>Site Work</td>
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<tr>
<td>Rehab to Structures</td>
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</tr>
<tr>
<td>General Requirements</td>
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</tr>
<tr>
<td>Contractors Overhead</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contractors Profit</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contractor's Bond</td>
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<tr>
<td>General Liability Insurance</td>
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<tr>
<td>Environmental Mitigation Expense</td>
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#### Relocation Expenses

<table>
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<tr>
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<tbody>
<tr>
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<td>Relocation Compliance Monitoring</td>
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### USES OF FUNDS (Cont’d):

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<th>Permanent ($)</th>
<th>Total Development Costs</th>
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<td>Total Uses of Funds ($)</td>
<td>Cost per Unit per Unit</td>
<td>%</td>
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<td>Noise/Acoustical/Traffic Study Report</td>
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## Annual Operating Budget

### Lion Creek Crossings

#### Final Commitment

### INCOME:

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### EXPENSES:

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### Financial Expenses

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### NET OPERATING INCOME

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<td><strong>NET OPERATING INCOME</strong></td>
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**Total Rental Income**

<table>
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<tr>
<th>Year</th>
<th>Final Commitment</th>
<th>CalHiFA Project Number</th>
<th>Lion Creek Crossings</th>
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<tbody>
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<td>95,416</td>
<td>97,346</td>
<td>103,746</td>
</tr>
<tr>
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<td>98,781</td>
<td>101,014</td>
<td>111,383</td>
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<td>102,148</td>
<td>104,574</td>
<td>115,503</td>
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<tr>
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<td>105,515</td>
<td>107,941</td>
<td>120,523</td>
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<tr>
<td>7</td>
<td>108,882</td>
<td>111,308</td>
<td>125,543</td>
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<td>112,249</td>
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<td>115,606</td>
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<td>118,963</td>
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**Other Income**

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**Total Gross Income**

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<th>CalHiFA Project Number</th>
<th>Lion Creek Crossings</th>
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<tbody>
<tr>
<td>3</td>
<td>95,416</td>
<td>97,346</td>
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<td>108,882</td>
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<tr>
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**Vacancy Loss**

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**Effective Gross Income**

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<tr>
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<td>102,148</td>
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**Operating Expenses**

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**Net Operating Income**

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**Debt Service**

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**Debt Coverage Ratio**

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<td><strong>DEBT COVERAGE RATIO</strong></td>
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### Table Data

#### Year 11

- **CalHFA Project Number:** 06-003
- **Year 12:** 1,121,047
- **Year 13:** 1,149,073
- **Year 14:** 1,177,800
- **Year 15:** 1,207,245
- **Year 16:** 1,237,426
- **Year 17:** 1,268,362
- **Year 18:** 1,300,071
- **Year 19:** 1,332,572
- **Year 20:** 1,365,887
- **Total:** 1,400,034

#### Year 11 to Year 20

- **Yearly Income:**
  - **Rent:** 4,478 to 5,193
  - **Other Income:** 50,397 to 58,572
- **Yearly Expenses:**
  - **Operating Expenses:** 628,298 to 673,048
  - **Replacement Reserve:** 578,374 to 702,701
- **Yearly Coverage Ratio:**
  - **1.40** to **1.54**

---

### Notes

- The table represents financial data for Lion Creek Crossings, including rental income, other income, and operating expenses over the years from 2011 to 2020.
- The debt coverage ratio is indicated for each year, showing the ratio of net operating income to debt service.
- The data includes detailed breakdowns for rent, other income, expenditures, and coverage ratios, providing a comprehensive view of the fiscal health of Lion Creek Crossings.

---

### Additional Information

- **Title:** Cash Flow
- **Column Headers:** Year 11, Year 12, Year 13, Year 14, Year 15, Year 16, Year 17, Year 18, Year 19, Year 20
- **Data Source:** Lion Creek Crossings Financial Report
- **Unit:** Dollars
- **Currency:** USD
- **Scale:** 1,000,000

---

### Analysis

The data reveals a steady increase in both rental and other income over the years, with fluctuations in the year-to-year values. The operating expenses show a significant increase from 2011 to 2020, necessitating careful management to maintain a suitable debt coverage ratio. The debt coverage ratio, ranging from 1.40 to 1.54, indicates a strong financial health overall, ensuring that the debt obligations are covered by the net operating income for the majority of the years.
### Cash Flow

#### CalHFA Project Number: 06-003

<table>
<thead>
<tr>
<th>Year</th>
<th>Affordable Rents</th>
<th>Affordable Rent increase</th>
<th>Rental Subsidies</th>
<th>Rental Subsidy Increases</th>
<th>Other</th>
<th>TOTAL RENTAL INCOME</th>
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#### Other Income

- **Laundry**: 5,732, 5,875, 6,022, 6,173, 6,327, 6,485, 6,647, 6,613, 6,984, 7,158
- **Other Income Increase**: 2.50%, 2.50%, 2.50%, 2.50%, 2.50%, 2.50%, 2.50%, 2.50%, 2.50%, 2.50%
- **Annual Utility Allowance**: 58,780, 60,250, 61,756, 63,300, 64,883, 66,505, 68,167, 69,871, 71,618, 73,409
- **Annual Utility Allowance Increase**: 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%

#### Total Other Income

- 64,512, 66,125, 67,778, 69,473, 71,210, 72,990, 74,815, 76,685, 78,602, 80,567

#### Gross Potential Income

- 1,499,547, 1,537,036, 1,575,462, 1,614,848, 1,655,219, 1,696,600, 1,739,015, 1,782,490, 1,827,052, 1,872,729

#### Vacancy Assumptions

- **Affordable (Blended Average)**: 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%
- **Rental Subsidy Income**: 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%
- **Other**: 0%, 0%, 0%, 0%, 0%, 0%, 0%, 0%, 0%, 0%
- **Laundry Income**: 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%

#### Less: Vacancy Loss

- 74,977, 76,852, 78,773, 80,742, 82,761, 84,830, 86,951, 89,125, 91,353, 93,636

#### Effective Gross Income

- 1,424,570, 1,460,184, 1,496,689, 1,534,106, 1,572,458, 1,611,770, 1,652,064, 1,693,366, 1,735,700, 1,779,092

#### Operating Expenses

- **Expenses**: 886,276, 917,295, 949,401, 982,630, 1,017,022, 1,052,618, 1,089,459, 1,127,590, 1,167,056, 1,207,903
- **Annual Expense Increase**: 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%
- **Taxes and Assessments**: 6,773, 6,908, 7,047, 7,188, 7,331, 7,478, 7,627, 7,780, 7,936, 8,094
- **Annual Tax Increase**: 2.00%, 2.00%, 2.00%, 2.00%, 2.00%, 2.00%, 2.00%, 2.00%, 2.00%, 2.00%
- **Percentage Increase Yearly**: 0.00%, 0.00%, 0.00%, 0.00%, 0.00%, 0.00%, 0.00%, 0.00%, 0.00%, 0.00%

#### Total Expenses

- 942,132, 975,741, 1,007,985, 1,041,355, 1,075,891, 1,111,633, 1,151,201, 1,189,485, 1,229,106, 1,270,112

#### Net Operating Income

- 482,438, 484,443, 488,704, 492,751, 496,568, 500,137, 500,863, 503,881, 506,594, 508,981

#### Debt Service

- **CalHFA - 2nd Mortgage**: 0, 0, 0, 0, 0, 0, 0, 0, 0, 0
- **CalHFA - 3rd Mortgage**: 22,768, 22,768, 22,768, 22,768, 22,768, 22,768, 22,768, 22,768, 22,768, 22,768
- **MHP Required Debt Mortgage**: 37,920, 37,920, 37,920, 37,920, 37,920, 37,920, 37,920, 37,920, 37,920, 37,920
- **None**: 0, 0, 0, 0, 0, 0, 0, 0, 0, 0

#### Debt Coverage Ratio

- 1.56, 1.57, 1.58, 1.59, 1.60, 1.62, 1.62, 1.63, 1.64, 1.65
### Cash Flow

#### CalHFA Project Number: 06-003

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<th>Year 31</th>
<th>Year 32</th>
<th>Year 33</th>
<th>Year 34</th>
<th>Year 35</th>
<th>Year 36</th>
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<td>2,027,667</td>
<td>2,078,358</td>
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<td>2,130,317</td>
<td>2,183,575</td>
<td>2,238,164</td>
<td>2,294,119</td>
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#### OTHER INCOME

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#### GROSS POTENTIAL INCOME

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#### EFFECTIVE GROSS INCOME

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#### NET OPERATING INCOME

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</tr>
</tbody>
</table>

#### Debt Coverage Ratio

|                      | 1.65        | 1.65        | 1.65        | 1.66        | 1.66        | 1.79        | 1.78        | 1.77        | 1.77        | 1.76        |
RESOLUTION 06-12

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Creekside Housing Partners, L.P., a California limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in Oakland, Alameda County, California to be known as Lion Creek Crossings (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on March 13, 2006, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to his/her recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

<table>
<thead>
<tr>
<th>PROJECT NUMBER</th>
<th>DEVELOPMENT NAME/Locality</th>
<th>NUMBER OF UNITS</th>
<th>MORTGAGE AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>06-003-C/N</td>
<td>Lion Creek Crossings, Oakland, Alameda County</td>
<td>106</td>
<td>$22,585,000: 1st Mortgage (Cons)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$3,815,000: Perm. 1st Mortgage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$475,000: 2nd Mortgage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$530,000: 3rd Mortgage (FAF)</td>
</tr>
</tbody>
</table>
Resolution 06-12

2. The Executive Director may modify the terms and conditions of the loans or
loans as described in the Staff Report, provided that major modifications, as defined below,
must be submitted to this Board for approval. "Major modifications" as used herein means
modifications which either (i) increase the total amount of any loans made pursuant to the
Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive
Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily
Programs of the Agency, adversely change the financial or public purpose aspects of the final
commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 06-12 adopted at a duly
constituted meeting of the Board of the Agency held on May 11, 2006 at Burbank, California.

ATTEST:________________________
Secretary
MEMORANDUM

To: CalHFA Board of Directors

From: Theresa A. Parker, Executive Director

CALIFORNIA HOUSING FINANCE AGENCY

Date: April 25, 2006

Subject: CalHFA Five-Year Business Plan -- Resolution 06-13

I offer, for your consideration, the 14th annual CalHFA Five-Year Business Plan (2006/07 to 2010/11) and a resolution for its adoption. This Plan, unlike the previous 13 Plans, has
constrained goals and objectives for all three program areas (Homeownership, Mortgage
Insurance and Multifamily Rental). The staff of the California Housing Finance Agency are
among the most talented and professional people I have worked with in state government;
however, vacancies at the program director level have left me with little choice but to
recommend a less ambitious plan than we would all like to be offering. The problem, as I have
articulated in the past, is the lack of salary compensation necessary to recruit and retain qualified
directors to run our program areas.

The Plan’s focus for the immediate future will be to continue our operation processes with the
goal of utilizing more of today’s technology. While our computer systems are adequate, we
must constantly challenge ourselves to improve them and maintain pace with our private sector
partners. We intend to streamline our reservation and loan application processes, while moving
to an all-electronic processing environment within the Agency.

While my presentation to the Board in March proposed a more aggressive Business Plan, this
revised plan is consistent with the Board’s philosophies as received throughout the past year.
The Plan will be utilized as a road map for staff and for the Board to measure our performance as
we carry out the Agency’s mission to “finance below-market rate loans to create safe, decent,
and affordable rental housing and to assist first-time homebuyers in achieving the dream of home
ownership.”

The updated plan proposes total activity of $11.5 billion of housing-related economic activity
over the next five years. This activity includes over $6.5 billion of new home mortgages, $3.6
billion of mortgage insurance activity, and $700 million in multifamily lending. The new
construction that will be stimulated over this five-year period will aid the State’s economic
growth and help support the creation of over 63,000 new jobs.

In addition to the activities outlined in the plan, new housing opportunities can be expected to
present themselves throughout the five-year plan period. As in previous years, the staff intends
to respond dynamically (within resource constraints) to these market opportunities as they
emerge and bring them to the Board at the appropriate time.
Please join me recognizing the incredible job that the CalHFA staff has accomplished over the last several years – historic lending programs in Homeownership and Mortgage insurance, extremely complex deals in Multifamily like the Bay Area Housing Plan, and behind the scenes work of Financing, Marketing, Legal, Asset Management, Administration, Information Technology, Fiscal Services, Special Lending and Loan Servicing.

Your approval of Resolution 06-13, adopting the 14th CalHFA Business Plan is requested.
FIVE-YEAR BUSINESS PLAN
FISCAL YEARS
2006/2007 TO 2010/2011

Cal HFA
Affordable Housing is our Business
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<td>17 - 18</td>
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<td>19 - 21</td>
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<td>25 - 31</td>
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<tr>
<td>V. FINANCIAL SUMMARY</td>
<td>32 - 41</td>
</tr>
</tbody>
</table>
I. EXECUTIVE SUMMARY

2006/07 Business Plan Overview:

CalHFA's 2006/07 Business Plan proposes total activity of $11.5 billion during the five-year period. Homeownership, multifamily and special lending programs are estimated to be $7.9 billion with loan insurance activity contributing an additional $3.6 billion. The previous five-year plan proposed a total of $10.9 billion.

Homeownership. Estimated levels of first mortgage lending for homeownership are planned to be $1.3 billion for 2006/07 and remain constant during the remainder of the five-year plan. With continued funding from Prop. 46, the total commitment for down payment assistance programs is planned to be $83 million for 2006/07. Down payment assistance levels for future periods are dependant on successful recycling of principal prepayments and new sources of funding. The new five-year target for homeownership is $6.9 billion, which includes a program for self-help builders' assistance. Sufficient tax-exempt issuance authority is available for issuance of bonds to attain the $1.3 billion goal in the coming fiscal year. Continued use of variable rate bonds and interest rate swaps should result in attractive interest rates for the varied first mortgage loan programs. Over the life of the five-year plan, however, additional annual MRB allocation for our first mortgage program will be required.

Mortgage Insurance. Total mortgage insurance activity is proposed at $729 million for the 2006/07 fiscal year and $3.6 billion for the five-year period. This compares to the 2005/06 goal of $485 million and projected activity of $2.4 billion. The change in activity is a direct result of borrowers' increased use of conventionally insured first mortgage loan products on agency homeownership loans due, in part, to rising home prices in California and FHA loan limits. CalHFA's homeownership loan portfolio has historically been predominately FHA insured, however the mix of mortgage insurance has changed significantly over the past few years. CalHFA first mortgages with FHA insurance were 84% of total originations in calendar year 2003, 65% in calendar year 2004 and 27% in calendar year 2005. This shift has created new opportunities for the Agency's insurance fund to collaborate with the homeownership division when non-agency mortgage insurance activity has slowed tremendously.

Multifamily. The 2006/07 goal for multifamily lending is $232 million, with a total target of $811 million for the five-year period. Projected permanent loan activity and construction lending is expected to remain constant throughout the business plan period. Lending activity in support of the Bay Area Housing Plan will continue during the 2006/07 fiscal year with $75 million in new activity expected. Meantime, preservation lending programs and housing for the homeless and other special needs populations is anticipated to produce $13 million of loan activity in 2006/07. With an aging portfolio of multifamily properties, increased emphasis will be placed on programs that offer assistance to address deferred maintenance and capital improvements.

Special Lending Programs. The 2006/07 goal for special lending is $41 million, with a total target of $170 million for the five-year period. This plan proposes to continue partnering with localities by committing $15 million in each year of the plan to the HELP program. In addition, the Residential Development Loan Program is expected to produce $66 million of lending activity over the five-year plan and $5 million of activity is anticipated annually under the Habitat for Humanity program.
New construction activity financed under the five-year plan is estimated to be over $1.6 billion in Homeownership financing and $232 million in new affordable multifamily rental units. This will support the creation of approximately 61,500 jobs*. Additionally, there will be a significant economic impact resulting from CalHFA's financing of resale homes and multifamily acquisition/rehabilitation projects, as well as from the Agency's mortgage insurance activities.

*Source for multiplier: Construction Industry Research Board
II. INTRODUCTION

Plan Purpose:

The purpose of this document is to provide the Board of Directors of the California Housing Finance Agency (CalHFA) with a proposed business plan for the next five fiscal years. This plan is intended to enhance the Board’s ability to address some of the important affordable housing needs of California by instituting a comprehensive framework for Board decision-making, by providing guidance to staff, and by setting forth benchmarks against which to measure the success of programs and the effective use of operating resources. As such, the particular housing finance and loan insurance programs recommended in the plan were formulated in an effort to increase homeownership opportunities and the multifamily affordable housing stock, maximize CalHFA’s restricted resources, and stimulate the housing-related economy of California.

Background:

The Agency was created in 1975 as the state’s affordable housing bank. The federal and state tax exemption available on state-issued debt enables housing finance capital to be provided at below-market interest rates. CalHFA is empowered to issue debt obligations for a wide variety of housing-related programs, and it is also authorized through its insurance program to provide mortgage insurance.

CalHFA’s primary purpose and its mission, according to state law, is to meet the housing needs of persons and families of low- to moderate-income.

CalHFA’s programs consist of four major areas: homeownership loan programs, mortgage insurance, multifamily loan programs (for rental properties) and special lending programs.

Assumptions Underlying Plan Goals:

It must be recognized that the levels of activity projected for each program are based on assumptions regarding key factors over which CalHFA does not, in many cases, exercise control. The following are some of the key assumptions on which the projections are based:

- Receipt of sufficient state allocation of private activity bond issuance authority.
- No repeal of the Federal Ten Year Rule.
- Continued investor demand for CalHFA bonds.
- Over 56% of loans purchased by Homeownership continue to be conventional loans requiring CalHFA mortgage insurance.
- Timely and successful new partnerships and programs.
- Obtain adequate salary levels to recruit and retain qualified individuals to perform at the level necessary to maintain our bond ratings.
- Ongoing demand from first-time homebuyers and rental housing sponsors.
- Borrower interest in newly created or redesigned single family loan products that may reduce the use of CalHFA Housing Assistance Program (CHAP) and High Cost Area Home Purchase Assistance Program (HiCAP) subordinate loans.
- A reasonably stable interest rate market.
- State and local agency financial participation.
- Offer Housing Assistance Trust (HAT) funds within available resources.
- Continued commitment of Government Sponsored Enterprise’s (GSE) to first-time homebuyers and affordable housing.

The Agency's programs and its organization are flexible enough to allow CalHFA to respond to changing circumstances in revenue projections, programs, and economic conditions, and to accommodate any unanticipated adjustment of priorities.

**2005/06 Business Plan - Progress to Date as of March 2006:**

The table below shows an estimate of actual production for CalHFA lending and insurance programs in comparison with fiscal 2005/06 goals.

<table>
<thead>
<tr>
<th></th>
<th>2005/2006 GOAL (Millions of dollars)</th>
<th>ESTIMATED ACTUAL</th>
<th>PERCENTAGE OF GOAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homeownership Programs</td>
<td>$1,294</td>
<td>$1,374</td>
<td>106%</td>
</tr>
<tr>
<td>Insurance Programs</td>
<td>$ 485</td>
<td>$ 751</td>
<td>151%</td>
</tr>
<tr>
<td>Multifamily Programs</td>
<td>$ 360</td>
<td>$ 238</td>
<td>66%</td>
</tr>
<tr>
<td>Special Lending Programs</td>
<td>$ 104</td>
<td>$ 41</td>
<td>39%</td>
</tr>
</tbody>
</table>

Homeownership lending volume is projected to be almost $1.4 billion and exceed the fiscal year’s goal of $1.2 billion in first mortgage lending activity.

Insurance activity is projected at $751 million in fiscal 2005/06. This is 151% of the $496 million achieved in 2004/05 and is due to the increase in homeownership conventional loan volume.

Multifamily lending commitments are projected to total $246 million for fiscal year 2005/06 compared to 2004/05's production of $366 million.

Special Lending volume is expected to be $41 million in fiscal year 2005/06, which is $1 million higher than the actual current year volume.

**2006/07 Business Plan Overview:**

CalHFA's 2006/07 Business Plan proposes total activity of $11.5 billion during the five-year period. Homeownership, multifamily and special lending programs are estimated to be $7.9 billion with loan insurance activity contributing an additional $3.6 billion. The previous five-year plan proposed a total of $10.9 billion.

**Homeownership.** Estimated levels of first mortgage lending for homeownership are planned to be $1.3 billion for 2006/07 and remain constant during the remainder of the five-year plan. With continued funding from Prop. 46, the total commitment for down payment assistance programs is planned to be $80 million for 2006/07. Down payment assistance levels for future periods are dependant on successful recycling of principal prepayments and new sources of funding. The new five-year target for homeownership is $6.9 billion, which
includes a program for self-help builders' assistance. Sufficient tax-exempt issuance authority is available for issuance of bonds to attain the $1.3 billion goal in the coming fiscal year. Continued use of variable rate bonds and interest rate swaps should result in attractive interest rates for the varied first mortgage loan programs. Over the life of the five-year plan, however, additional annual MRB allocation for our first mortgage program will be required.

**Mortgage Insurance.** Total mortgage insurance activity is proposed at $729 million for the 2006/07 fiscal year and $3.6 billion for the five-year period. This compares to the 2005/06 goal of $485 million and projected activity of $2.4 billion. The change in activity is a direct result of borrowers' increased use of conventionally insured first mortgage loan products on agency homeownership loans due, in part, to rising home prices in California and FHA loan limits. CalHFA's homeownership loan portfolio has historically been predominately FHA insured, however the mix of mortgage insurance has changed significantly over the past few years. CalHFA first mortgages with FHA insurance were 84% of total originations in calendar year 2003, 65% in calendar year 2004 and 27% in calendar year 2005. This shift has created new opportunities for the Agency's insurance fund to collaborate with the homeownership division when non-agency mortgage insurance activity has slowed tremendously.

**Multifamily.** The 2006/07 goal for multifamily lending is $232 million, with a total target of $811 million for the five-year period. The goal has been reduced from the prior year plan due to uncertainty over staffing resources. Projected permanent loan activity and construction lending is expected to remain constant throughout the business plan period. Lending activity in support of the Bay Area Housing Plan will continue during the 2006/07 fiscal year with $75 million in new activity expected. Meantime, preservation lending programs and housing for the homeless and other special needs populations is anticipated to produce $13 million of loan activity in 2006/07. With an aging portfolio of multifamily properties, increased emphasis will be placed on programs that offer assistance to address deferred maintenance and capital improvements.

**Special Lending Programs.** The 2006/07 goal for special lending is $41 million, with a total target of $170 million for the five-year period. This plan proposes to continue partnering with localities by committing $15 million in each year of the plan to the HELP program. In addition, the Residential Development Loan Program is expected to produce $65 million of lending activity over the five-year plan and $5 million of activity is anticipated annually under the Habitat for Humanity program.

CalHFA's 2006/07 Business Plan proposes a total of $7.9 billion for loan programs and $3.6 billion in insurance activity for a total of $11.5 billion for the 2006/07 to 2010/11 five-year period. This is a 6% increase when compared to the $10.9 billion proposed in the previous five-year plan.

**Organization of Plan:**

This introduction is followed by the sections described below:

- **Table I - Planned and Actual Summary** displays the goals and actual results for fiscal 2004/05 and the goals and current projections for fiscal 2005/06.
- **Table II - Plan Summary** shows goals by program for each of the years in the plan period 2006/07 to 2010/11.
• **Divisional Summaries** include lists of accomplishments and descriptions of how the plan will be carried out by the CalHFA divisions. These are followed by short descriptions of how each of the support divisions of CalHFA will assist the programs divisions in meeting the objectives of the plan.

• **Financial Summary** discusses in detail the Agency’s equity position as of September 30, 2005, the many restrictions on the Agency’s reserves, management of the Agency’s financial risks, and the projected fiscal effect of the plan over the five-year plan period.
<table>
<thead>
<tr>
<th>TABLE I - PLANNED AND ACTUAL SUMMARY</th>
<th>FY 2004/05</th>
<th>FY 2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HOMEOWNERSHIP PROGRAMS</strong>&lt;sup&gt;(a)&lt;/sup&gt;</td>
<td>Planned</td>
<td>Actual</td>
</tr>
<tr>
<td>Homeownership 1st Loans</td>
<td>$1,250.0</td>
<td>$1,308.0</td>
</tr>
<tr>
<td>Homeownership Down Pmt. Assist. (CHAP)</td>
<td>27.0</td>
<td>35.2</td>
</tr>
<tr>
<td>High Cost Area 2nd Loans (HICAP)</td>
<td>32.5</td>
<td>48.0</td>
</tr>
<tr>
<td>Self-Help Builder Assistance (SHBAP)</td>
<td>2.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Silent Second Mortgages&lt;sup&gt;(b)&lt;/sup&gt;</td>
<td>5.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Prop. 46 Down Payment Assistance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homebuyers Down Pmt. Assist. (CHDAP)</td>
<td>19.5</td>
<td>32.2</td>
</tr>
<tr>
<td>Homeownership in Revital Areas (HIRAP)</td>
<td>0.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Extra Credit Teacher Program (ECTP)</td>
<td>6.6</td>
<td>4.6</td>
</tr>
<tr>
<td>School Facility Fee (SFF)</td>
<td>7.4</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total Homeownership Programs</strong></td>
<td>$1,350.8</td>
<td>$1,435.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>INSURANCE SERVICES</strong></th>
<th>FY 2004/05</th>
<th>FY 2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA</td>
<td>$180.0</td>
<td></td>
</tr>
<tr>
<td>CalPERS</td>
<td>5.0</td>
<td>0.7</td>
</tr>
<tr>
<td>CalSTRS</td>
<td>35.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Lease Purchase</td>
<td>10.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Community Affordable Housing</td>
<td>30.0</td>
<td>8.6</td>
</tr>
<tr>
<td><strong>Total Insurance Programs</strong></td>
<td>$260.0</td>
<td>$495.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>MULTIFAMILY PROGRAMS</strong>&lt;sup&gt;(c)&lt;/sup&gt;</th>
<th>FY 2004/05</th>
<th>FY 2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent Loans</td>
<td>$160.0</td>
<td>$73.4</td>
</tr>
<tr>
<td>Construction Loans (CalHFA &amp; LTL)</td>
<td>100.0</td>
<td>192.1</td>
</tr>
<tr>
<td>Preservation Acquisition</td>
<td>35.0</td>
<td>100.6</td>
</tr>
<tr>
<td>Preservation Opportunity Program (Prop. 46)</td>
<td>15.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Section 8 Portfolio Rehab Loans</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal - Multifamily</strong></td>
<td>$331.0</td>
<td>$372.1</td>
</tr>
</tbody>
</table>

**SPECIAL LENDING PROGRAMS:**

- Multifamily HAT Funds | 5.0 | 6.0 | |
- HELP Program | 20.0 | 21.0 | |
- Small Loan Program | 3.0 | 0.0 | |
- Locality Initiatives Program | 10.0 | 0.0 | |
- HAT - Special Needs, Rehabilitation | 5.0 | 5.5 | 5.7 |
- HELP Program | 20.0 | 10.0 | 20.0 |
- Small Business / Predevelopment Loans | 4.0 | 0.3 | 0.6 |
- Community Development Initiative |
  - Financial Institutions (CDFI) | 10.0 | 0.0 | 0.0 |
  - Habitat for Humanity | 5.0 | 3.0 | 3.0 |
  - Tax Increment Financing | 10.0 | 0.0 | 0.0 |
- Residential Development Loan Program | 65.0 | 0.0 | 10.0 |
- Residential Development Construction Loans | 30.0 | 0.0 | 0.0 |
- Residential Development Second Loans (Prop. 46) | 10.0 | 0.0 | 0.0 |

**Subtotal - Special Lending Programs** | 38.0 | 27.0 |

**Total Multifamily Programs** | $351.0 | $399.1 |

**TOTAL CALHFA PROGRAMS** | $1,951.8 | $2,330.6 |

---

<sup>(a)</sup> Homeownership loans purchased.  
<sup>(b)</sup> In support of Agency Insurance Programs.  
<sup>(c)</sup> Multifamily loans committed.
TABLE II - PLAN SUMMARY
(In millions)

<table>
<thead>
<tr>
<th>HOMEOWNERSHIP PROGRAMS (a)</th>
<th>2006/07</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
<th>5 Yr Total</th>
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</thead>
<tbody>
<tr>
<td>Homeownership First Mortgages</td>
<td>$1,300.0</td>
<td>$1,300.0</td>
<td>$1,300.0</td>
<td>$1,300.0</td>
<td>$1,300.0</td>
<td>$6,500.0</td>
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<tr>
<td>Agency Funded Down Payment Assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>CalHFA Housing Assistance Program (CHAP) (b)</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
<td>32.5</td>
</tr>
<tr>
<td>High Cost Area Home Purch. Assist. Prog. (HiCAP) (c)</td>
<td>28.5</td>
<td>28.5</td>
<td>28.5</td>
<td>28.5</td>
<td>28.5</td>
<td>142.5</td>
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<tr>
<td>Self-Help Builder Assistance (SHBAP) (d)</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>12.5</td>
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<tr>
<td>Prop. 46 Down Payment Assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA Homebuyer's Downprmt Assist. Prog. (CHDAP) (e)</td>
<td>29.3</td>
<td>29.3</td>
<td>29.3</td>
<td>29.3</td>
<td>29.3</td>
<td>146.5</td>
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<tr>
<td>Homeownership In Revital. Areas Prog. (HIRAP)</td>
<td>2.3</td>
<td>1.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>3.8</td>
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<tr>
<td>Extra Credit Teacher Home Purchase Prog. (ECTP)</td>
<td>6.6</td>
<td>6.6</td>
<td>1.4</td>
<td>0.0</td>
<td>0.0</td>
<td>14.6</td>
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<tr>
<td>School Facility Fee Down Pay. Assist. Prog. (SFF)</td>
<td>4.3</td>
<td>4.5</td>
<td>4.8</td>
<td>5.0</td>
<td>5.3</td>
<td>23.9</td>
</tr>
<tr>
<td>Total Homeownership Programs</td>
<td>$1,380.0</td>
<td>$1,379.4</td>
<td>$1,373.0</td>
<td>$1,371.8</td>
<td>$1,372.1</td>
<td>$6,876.3</td>
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<table>
<thead>
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<th>INSURANCE SERVICES</th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA</td>
<td>$728.0</td>
<td>$728.0</td>
<td>$728.0</td>
<td>$728.0</td>
<td>$728.0</td>
<td>$3,640.0</td>
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<tr>
<td>Non-CalHFA</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
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<td>1.0</td>
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<tr>
<td>Total Insurance Programs</td>
<td>$729.0</td>
<td>$729.0</td>
<td>$729.0</td>
<td>$729.0</td>
<td>$729.0</td>
<td>$3,645.0</td>
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<table>
<thead>
<tr>
<th>MULTIFAMILY PROGRAMS (d)</th>
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<tr>
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<td>$40.0</td>
<td>$40.0</td>
<td>$40.0</td>
<td>$40.0</td>
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<td>100.0</td>
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<td>Bay Area Housing Plan</td>
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<td>75.0</td>
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<td>Preservation Acquisition &amp; Preservation Opportunity (e)</td>
<td>3.0</td>
<td>3.0</td>
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</tr>
<tr>
<td>Asset Management Portfolio Assistance (d)</td>
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<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>20.0</td>
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<tr>
<td>Total Multifamily Programs</td>
<td>$232.0</td>
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<td>$144.0</td>
<td>$144.0</td>
<td>$144.0</td>
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<table>
<thead>
<tr>
<th>SPECIAL LENDING PROGRAMS (d)</th>
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<th></th>
<th></th>
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<tbody>
<tr>
<td>Locality Programs</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Enabled through Local Partnerships (HELP) (h)</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
<td>75.0</td>
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<tr>
<td>Residential Develop. Lending Prog. for Local. (RDLP) (f)</td>
<td>20.0</td>
<td>20.0</td>
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<td>0.0</td>
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<tr>
<td>Small Business / Predevelopment Loans (g)</td>
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<tr>
<td>Habitat for Humanity Loan Purchase Program (g)</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Total Special Lending Programs</td>
<td>$41.0</td>
<td>$41.0</td>
<td>$46.0</td>
<td>$21.0</td>
<td>$21.0</td>
<td>$170.0</td>
</tr>
</tbody>
</table>

TOTAL CalHFA PROGRAMS
$2,382.0 $2,296.4 $2,292.0 $2,265.8 $2,266.1 $11,502.3

(a) Production totals represent anticipated Homeownership loans purchased.
(b) Funded from Agency's Housing Assistance Trust.
(c) CHDAP - assumes funds will be available from recycling, or new sources of funding.
(d) Production totals represent anticipated Multifamily and Special Lending Programs final commitments.
(e) 30% of these commitments are funded from Prop. 46 funds.
(f) Funded from Prop. 46 funds.
(g) Funded from Prop. 46 funds.
(h) Funded from Prop. 46 funds.
III. ACCOMPLISHMENTS – FISCAL YEAR 2005/06

Homeownership Overall:

- Projected to reach and exceed our fiscal 2005/2006 goal of $1.2 billion in first mortgage loans while at the same time significantly reducing the dependency on the use of HAT resources to meet our goals.
- Continued to develop processes and procedures for streamlining homeownership loan processing.
- CHAP second mortgage loans are projected to decline to $6.7 million due to exclusively being used behind FHA insured first mortgages.
- As of March 31, 2006 1,315 HiCAP second loans have been purchased totaling $22.5 million representing 69% of the fiscal year 2005/06 goal.
- Maintained the annual production goal for the mutual Self-Help Builder Assistance Program (SHBAP) development loans. As of March 31, 2006, the Agency purchased 18 SHBAP first mortgages totaling $2.7 million during the fiscal year 2005/06.
- Expanded to over 240 localities and nonprofits currently approved to partner with CalHFA in its Affordable Housing Partnership Program (AHPP).
- Continued to provide a significant amount of the Agency’s loan assistance to low-income borrowers. Through March 31, 2006, 43% of all CalHFA first-time homebuyer loans were made to borrowers with incomes of 80% or less of the area median income.
- Sustained high levels of minority first-time homebuyers, with over 56% of all loans being made to minority borrowers as of March 31, 2006.

Homeownership Proposition 46 Funds:

- Continued the California Homebuyer’s Downpayment Assistance Program (CHDAP). Purchased a total of 2,786 loans totaling $23 million as of March 31, 2006.
- As of March 31, 2006, purchased 105 loans totaling $1.9 million in the Homeownership In Revitalization Areas Program (HIRAP). Approved for participation in the program are eleven nonprofit agencies, which also provide homeownership counseling.
- Purchased 214 Extra Credit Teacher Program (ECTP) loans totaling $2.8 million as of March 31, 2006.
- Continued the School Facility Fee Down Payment Assistance Program (SFF). As of March 31, 2006, 690 disbursements had been made for a total of $2.4 million.
Mortgage Insurance

- New mortgage insurance written projected to exceed plan by $251 million.
- Reduced depth of coverage from 50% to 35% on Agency products requiring private mortgage insurance.
- Introduced HomeOpeners\textsuperscript{SM}, a Mortgage Protection Program, designed to provide unemployment benefits to qualified borrowers.
- Worked with Homeownership to increase LTV from 97% to 100% on 30-year conventional loans.
- Worked with Homeownership to research, develop and introduce the interest only PLUS\textsuperscript{SM} program.

Multifamily:

- Projected to achieve 70% of the current fiscal year's core production goal by processing loan commitments equaling $238 million.
- Projected to close 40 multifamily loans for approximately $400 million, representing 3,600 units of housing. This dollar volume represents the highest ever total for Multifamily, exceeding last year's volume by 56% and matching the previous record in fiscal year 2004/05 for the number of projects closed.
- Continued to focus on the construction-lending program to complement our successful permanent loan program. There are currently twenty-four construction projects totaling $312 million under construction.
- Bay Area Housing Plan is approved for $45 million in special financing for housing for developmentally disabled.
- CalHFA funded three special needs projects this fiscal year, providing 119 units in permanent supportive housing. Total financing committed to these projects is $34.7 million.
- CalHFA joined with the Department of Housing and Community Development (HCD) and the Department of Mental Health (DMH) to implement the Governor's Homeless Initiative. Under this initiative, CalHFA provides construction financing for projects serving the chronically homeless with HCD providing permanent financing and the DMH providing funding for support services.
- Selected and began creation and implementation of a new Multifamily database and integrated underwriting system called ProLink. ProLink includes a document management system and is expected to be launched within the Agency in mid fiscal year 2006/07.

Special Lending:

- Continued the popular and successful Housing Enabled by Local Partnerships (HELP) program. The two allocation rounds for the current year were fully subscribed at the $20 million level, representing 21 commitments to an equal number of localities. The program has achieved notable success with allocations being awarded to 98 localities representing 150 active commitments. These commitments
will produce over 17,800 units of affordable housing in both homeownership and multifamily developments.

- The Habitat for Humanity Loan Purchase Program was initiated this year. Commitments totaling just over $3 million have been issued to purchase 43 first mortgages from 7 Habitat affiliates.
- Parameters for the Residential Development Loan Program have been developed in conjunction with focus groups comprised of participants from local government housing, development and lending industries. The first round of funding is expected to be announced by the end of the current fiscal year.
- Issued 3 pre-development loan commitments under the Small Business Loan Program for an aggregate loan volume of $600,000.

**HomeOpeners** is a service mark of GE Mortgage Holdings, LLC.
IV. DIVISIONAL SUMMARIES

A. HOMEOWNERSHIP PROGRAMS:

The role of Homeownership Programs is to increase homeownership opportunities to Californians by making financing available to low and moderate-income first-time homebuyers.

Objectives:

In fiscal year 2006/07, CalHFA will continue to pursue activities designed to further the following mission objectives:

Providing first-time homebuyers with below market rate mortgage financing; focusing on low-income homebuyers; assisting teachers, administrators, other eligible credentialed staff, and classified employees working in high priority schools to buy their first home; distributing loans equitably throughout the state; targeting loans to extremely high housing cost areas of the state; promoting loan products to expand the supply of affordable new construction housing; continuing a loan product to assist low-income disabled homebuyers, promoting efforts to identify affordable housing needs, exploring opportunities, developing solutions, assembling resources, and partnering to implement solutions.

Strategies:

The planned strategies to accomplish the objectives, and in particular to maximize the public benefit to low-income borrowers, are listed below:

- Providing long-term, fixed-rate first mortgages below conventional market interest rates.
- Providing the lowest rates for low-income borrowers.
- Supporting very-low and low-income homeownership through the provision of down payment assistance and reduced interest rates in the Affordable Housing Partnership Program (AHPP), the CalHFA Housing Assistance Program (CHAP), the California Homebuyer’s Downpayment Assistance Program (CHDAP), the Homeownership In Revitalization Areas Program (HIRAP), the School Facility Fee Down Payment Assistance Program (SFF), and the Self-Help Builder Assistance Program (SHBAP).
- Targeting high cost urban areas in need of affordable financing by providing down payment assistance for low- and moderate-income homebuyers through the HiCAP.
- Providing down payment assistance for teachers, administrators, other eligible credentialed staff and classified employees through the Extra Credit Teacher Home Purchase Program (ECTP).
- Continuing the availability of the 100% LTV 35-year term loan with an initial 5 year interest only payment feature (interest only PLUS^5y).
- Continuing the HiCAP that assists homebuyers in extreme high cost areas of the state. Continuing to utilize a statewide network of lending institutions to provide consumer access to CalHFA loan products
- Implementing a 100% LTV 40-year term fully amortizing loan to provide more affordable financing.
• Implementing a Lead Generation Program with active loan officers to generate new loan volume.
• Developing a standard subordinated debt format to facilitate additional private and nonprofit funding sources.
• Encouraging additional CalHFA approved lenders to offer the interest only PLUS\textsuperscript{SM} loan and 40-year loans.
• Providing outreach, technical assistance, and training support to lenders and other industry organizations.
• Partnering with localities and nonprofit housing organizations to assist low-income borrowers.
• Updating sales price limits biannually consistent with federal law in order to assist the maximum number of first-time homebuyers.
• Utilizing marketing and media resources to generate awareness for our programs and participating in special events.
• Evaluating new loan products to meet market changes and customer demand (Fannie Mae/HFA Branded Product).

**Program Performance and Strategy Implementation:**

Following is a list of the major Homeownership programs, with the applicable fiscal year and five-year goals. A brief performance history against the current fiscal year goals for the listed programs is provided.

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal:</th>
<th>2006/07 Plan Goal:</th>
<th>Five-Year Goal:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Mortgage Lending</strong></td>
<td>$1.2 billion</td>
<td>$1.3 billion</td>
<td>$6.5 billion</td>
</tr>
</tbody>
</table>

The current fiscal year's Business Plan includes a first mortgage purchase goal of $1.20 billion, which is projected to be met by year-end. As of March 31, 2006, the Agency has purchased loans totaling $1.02 billion in the current fiscal year, of which 77% were for resale homes and 23% for newly constructed homes.

The five-year goal was amended to increase the annual lending goal to $1.30 billion for the next five years starting with the 2006/07 fiscal year. The $1.30 billion annual goal should be attainable in the coming fiscal year subject to market interest rates remaining stable. Additional private activity bond allocation will be necessary to fully fund the five-year $6.5 billion goal.

First mortgage loan products currently offered include a standard 30-year fixed rate conventional and governmental loans from 97% to 100% LTV, a new 100% LTV 40-year fixed rate conventional loan, and an existing 100% LTV conventional loan with a five-year interest only period followed by a 30-year amortizing period, both at the same fixed interest rate known as interest only PLUS\textsuperscript{SM}.

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal:</th>
<th>2006/07 Plan Goal:</th>
<th>Five-Year Goal:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CalHFA Housing Assistance Program (CHAP)</strong></td>
<td>$13.3 million</td>
<td>$6.7 million</td>
<td>$32.5 million</td>
</tr>
</tbody>
</table>

2006/07 Plan Goal: $6.7 million

Five-Year Goal: $32.5 million
A $13.3 million 2005/06 goal was included in the current Five-Year Business Plan for the highly successful CHAP. With CHAP, the financing for home purchases is comprised of an FHA insured 30-year fixed rate first mortgage, and a 3% CHAP deferred payment second mortgage. The deferred second mortgage reduces borrower down payment requirements without increasing monthly loan payments. This product is used statewide and has been instrumental in assisting with the Agency’s equitable distribution of loan funds objectives.

Given the limited availability of HAT funds, the Agency proposes to further restrict the CHAP program in the fiscal year 2006/07 budget to $6.5 million in order to preserve resources. The recent addition of 100% LTV conventional loan products is anticipated to offset the impact the reduction in funding will have on the program and Homeownership loan volume.

As of March 31, 2006, there have been 760 CHAP second mortgages purchased in fiscal year 2005/06 for a total of $5.4 million.

- **High Cost Area Home Purchase Assistance Program (HiCAP)**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal:</th>
<th>2006/07 Plan Goal:</th>
<th>Five Year Goal:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 32.4 million</td>
<td>$ 28.6 million</td>
<td>$142.5 million</td>
</tr>
</tbody>
</table>

This program provides financing in the form of a deferred payment second mortgage for down payment assistance to create new opportunities for low- to moderate-income homebuyers to purchase housing in counties with extreme housing costs, very high job demand, affordability problem exists and where the Agency’s Homeownership Program has underserved the county.

As of March 31, 2006, the Agency has purchased 1,315 second mortgages for a total of $22.5 million, with an additional $6.1 million anticipated during fiscal year 2005/06. CalHFA has also purchased 1,295 related first mortgage loans totaling $366.9 million.

As with the CHAP program, HiCAP was restructured within the available funding resource to keep the program viable into the future and to support the first mortgage-lending program. On May 12, 2005, the maximum loan amount was reduced from $25,000 to $15,000. Further changes will be considered in order to best serve high-cost housing areas.

- **Self-Help Builder Assistance Program (SHBAP)**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal:</th>
<th>2006/07 Plan Goal:</th>
<th>Five-Year Goal:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 2.5 million</td>
<td>$ 2.5 million</td>
<td>$12.5 million</td>
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<tr>
<td></td>
<td>$ 2.5 million</td>
<td>$ 2.7 million</td>
<td>$12.5 million</td>
</tr>
</tbody>
</table>

The Agency continues to commit $2.5 million of HAT funds annually to the SHBAP program which provides development loans to nonprofit self-help developers. This program provides loans for site acquisition, development and/or construction financing to nonprofit self-help housing sponsors, and permanent loans to borrowers. Due to the continuing increase in development costs and the need of the nonprofits for affordable financing, the maximum loan amount has been increased to $750,000 from $500,000 and may be increased up to $1 million for top tier nonprofits.
Families contribute their labor ("sweat equity") in lieu of a cash down payment under the mutual self-help approach.

**Homeownership Proposition 46 Funds:**

Approved by the California voters in November 2002, Prop. 46 provided $194.75 million for downpayment and/or closing cost assistance to four programs to be administered by CalHFA’s Homeownership Division. The funds are financing the following programs and the original amounts are listed below:

- California Homebuyer’s Downpayment Assistance Program $111.6 million
- Homeownership In Revitalization Areas Program $11.9 million
- Extra Credit Teacher Home Purchase Program $23.8 million
- School Facility Fee Down Payment Assistance Program $47.5 million

The descriptions of each of the Prop.46 programs are provided below:

- **California Homebuyer’s Downpayment Assistance Program (CHDAP)**

<table>
<thead>
<tr>
<th>2005/06 Plan Goal:</th>
<th>2006/07 Plan Goal:</th>
</tr>
</thead>
<tbody>
<tr>
<td>-With CalHFA Firsts</td>
<td>$31.7 million</td>
</tr>
<tr>
<td>-With Non-CalHFA Firsts</td>
<td>$24.0 million</td>
</tr>
<tr>
<td>Projected:</td>
<td>$5.3 million</td>
</tr>
</tbody>
</table>

- **Five-Year Goal:**
  - With CalHFA Firsts $146.5 million
  - With Non-CalHFA Firsts $120.0 million
  - With Non-CalHFA Firsts $26.5 million

The CHDAP program, funded by Prop. 46, provides a deferred payment, 3% simple interest, junior mortgage of up to 3% of the purchase price or appraised value, whichever is less. Used for down payment and closing cost assistance, it may be used in conjunction with a CalHFA or non-CalHFA first mortgage.

As of March 31, 2006, the Agency has purchased 2,786 CHDAP junior mortgages for a total of $23 million, with an additional $6.3 million anticipated during fiscal year 2005/06. CalHFA had also purchased 2,246 related first mortgage loans totaling $568.8 million.

A total of $111.6 million was made available for loans from Prop. 46 for CHDAP as of January 2003. A $29.3 million allocation is included in the Plan for fiscal year 2006/07.

- **Homeownership In Revitalization Areas (HIRAP)**

<table>
<thead>
<tr>
<th>2005/06 Plan Goal:</th>
<th>2006/07 Plan Goal:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected:</td>
<td>$2.8 million</td>
</tr>
<tr>
<td>2006/07 Plan Goal:</td>
<td>$2.3 million</td>
</tr>
<tr>
<td>Five-Year Goal:</td>
<td>$3.8 million</td>
</tr>
</tbody>
</table>

As a set-aside of CHDAP within Prop. 46, $11.6 million was made available for HIRAP. This program is for down payment and closing cost assistance to lower-income first-time
homebuyers. CalHFA-approved nonprofit organizations must document that the low-income homebuyers are purchasing a residence in a community revitalization area targeted by the nonprofit organization, and have received counseling from the nonprofit organization.

On January 1, 2005, pursuant to 2003 Legislation, CalHFA’s Executive Director instructed all funds remaining in HIRAP be made available at an amount not to exceed 6% of the sales price until the reversion date of May 5, 2005, to CHDAP.

As of March 31, 2006, the Agency has purchased 106 loans for $1.9 million, with an additional $0.4 million anticipated during the remainder of fiscal year 2005/06. CalHFA also purchased related 73 first mortgage loans totaling $17.6 million as of March 31, 2006.

- **Extra Credit Teacher Home Purchase Program (ECTP)**

<table>
<thead>
<tr>
<th>2005/06 Plan Goal:</th>
<th>$ 6.6 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected:</td>
<td>$ 3.5 million</td>
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<tr>
<td>2006/07 Plan Goal:</td>
<td>$ 6.6 million</td>
</tr>
<tr>
<td>Five-Year Goal:</td>
<td>$ 14.6 million</td>
</tr>
</tbody>
</table>

The ECTP, funded by Prop. 46, is intended to help high priority schools recruit and retain credentialed teachers, administrators, staff and classified employees. This program offers a combination of a CalHFA first mortgage at a reduced interest rate, along with a junior loan for down payment assistance. The junior loan amount is limited to the greater of $7,500 or 3% of the sales price in CalHFA-defined statewide, non-high cost counties, or the greater of $15,000 or 3% of the sales price in CalHFA-defined high cost counties.

As of March 31, 2006, the Agency has purchased 214 ECTP junior mortgages for a total of $2.8 million, with an additional $0.7 million anticipated during fiscal year 2005/06.

- **School Facility Fee Down Payment Assistance Program (SFF)**

<table>
<thead>
<tr>
<th>2005/06 Plan Goal:</th>
<th>$ 4.7 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected:</td>
<td>$ 4.1 million</td>
</tr>
<tr>
<td>2006/07 Plan Goal:</td>
<td>$ 4.3 million</td>
</tr>
<tr>
<td>Five-Year Goal:</td>
<td>$23.9 million</td>
</tr>
</tbody>
</table>

The SFF, funded by Prop. 46, offers conditional grants that can be used for down payment assistance or closing costs by eligible homebuyers. The grants are based on the amount of the School Facility Fee paid by the developer for each particular new construction unit. A total of $47.5 million was made available for grants for down payment and closing cost assistance from Prop. 46. A remaining total of $23.9 million is included in the Five-Year Business Plan for grants, to be divided equally between the two SFF programs: 1) “Economically Distressed Area” and 2) “First-Time Homebuyer, Moderate Income Limits.” As of March 31, 2006, 690 grants have been disbursed for a total of $2.4 million with an additional $1.7 million anticipated during fiscal year 2005/06.
B. MORTGAGE INSURANCE SERVICES

Objectives:
Provide below-market mortgage insurance coverage to allow originating lenders and the Agency to provide loans enabling first-time California homebuyers to purchase decent, safe and affordable housing by insuring new conventional CalHFA loans.

Strategies:
Improve business processes to increase production capacity:

- Streamline or augment internal business processes through use of technology and enhanced infrastructure and facility to ensure that production can be handled efficiently.
- Revise the divisional policy and procedures manual to ensure compatibility with changes in business processes.
- Increase outreach to customers to define needs and process improvements in operational areas.
- Upgrade customer access to the CalHFA portal via the website and computer technology.

Develop business opportunities for products to support production goals:

- Develop communication strategies to better inform customers and stakeholders of new business processes, new products, upgrades of business practices, and access to technology.
- Support Homeownership and Mortgage Insurance Services goals through increased participation in industry events, media outlets, and lender training to promote CalHFA loan products and HomeOpeners® a Mortgage Protection Program.

Program Performance and Strategy Implementation:

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
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</thead>
<tbody>
<tr>
<td>California Housing Finance Agency (CalHFA) Conventional Loans</td>
<td>$460 million</td>
<td>$735 million</td>
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<tr>
<td>2006/07 Goal</td>
<td>$728 million</td>
<td></td>
</tr>
<tr>
<td>Five-Year Goal</td>
<td>$3.640 billion</td>
<td></td>
</tr>
</tbody>
</table>

In 2005, changes in mortgage insurance coverage resulted in a lowering of mortgage insurance premiums to borrowers. At the same time, CalHFA allowed 100% LTV on its standard 30-year loan product. Additionally, the introduction of the interest only PLUS℠ program in the spring of 2005 proved to be a huge success and was instrumental in the Agency’s mortgage insurance fund meeting its fiscal year 2005/06 production goal by

1 HomeOpeners is a registered trademark of Genworth Mortgage Holding, LLC.
February 2006. The *interest only PLUS* product represents about 40% of Agency conventional loan production. With the introduction of the 40-year fixed rate conventional loan in March 2006, the Agency will have three active conventional loan programs to offer during fiscal year 2006/07. This will allow the Agency to provide more options to first-time homebuyers while providing Mortgage Insurance Services increased business opportunities.

- **Non-CalHFA Conventional Loans**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal:</th>
<th>$25.0 million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projected:</td>
<td>$1.2 million</td>
</tr>
<tr>
<td>2006/07 Goal:</td>
<td>$1.0 million</td>
<td></td>
</tr>
<tr>
<td>Five-Year Goal:</td>
<td>$5.0 million</td>
<td></td>
</tr>
</tbody>
</table>

These programs serve borrowers who normally do not qualify for CalHFA Homeownership loan programs due to MRB imposed requirements. For example, the Agency’s Mortgage Insurance fund supports Fannie Mae’s My Community Mortgage products as well as Freddie Mac’s Affordable Gold products which are designed for low- to moderate-income borrowers and for underserved markets. While national competition for these products is aggressive, discussions will continue toward expanding products with Fannie Mae and Freddie Mac. The goal reflects existing product expectations.
C. MULTIFAMILY PROGRAMS

The role of Multifamily Programs is to finance rental housing, for very low-, low- and moderate-income households.

Objectives:

The Division’s primary objective is to create and preserve affordable rental housing throughout the state through direct lending activities.

Strategies:

Multifamily Programs focus is primarily on lending to affordable housing sponsors for new construction, acquisition/rehabilitation, and rehabilitation projects. The strategies undertaken to reach the programs’ goals include the following activities:

- Introduce a 30-year fully amortized permanent loan, with a prepayment option after year 15, to match the financial needs of Low Income Housing Tax Credit developments.
- Continue to provide highly competitive construction and bridge loans; the latter repaid through tax credit equity installments.
- Facilitate the preservation and rehabilitation of at-risk housing through interim financing to assist in the timely acquisition of assisted projects at risk of losing their long-term affordability.
- Collaborate with state and local housing, social service, and mental health agencies to construct affordable supportive housing for special needs populations, including the chronically homeless and those with mental disabilities. Maintain discounted interest rates to increase affordability for these populations.

Program Performance and Strategy Implementation:

Following is a list of the major Multifamily programs with the applicable fiscal year and five-year goals. Also provided is a brief performance history against the current fiscal year goals for the listed programs.

<table>
<thead>
<tr>
<th>Program</th>
<th>2005/06 Plan Goal</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction and Permanent Loans</td>
<td>$280 million</td>
<td>$140 million</td>
<td>$700 million</td>
</tr>
<tr>
<td>Projected:</td>
<td>$186 million</td>
<td></td>
<td></td>
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</tbody>
</table>

In fiscal year 2005/06, multifamily activity focused on closing $400 million in tax-exempt financing, matching the record-breaking activity in fiscal year 2004/05.

Multifamily lending will introduce a new permanent loan product next fiscal year. The new product presents a financing product for affordable housing developers that is unmatched in the conventional market.
In fiscal year 2006/07, the estimated breakdown between construction and permanent loans is $100 million and $40 million, respectively. The comparable figures for this fiscal year are $120 million and $66 million, respectively. Linked to CalHFA permanent loans, the construction loan program for tax-exempt bond projects provides low cost, variable rate funds to reduce construction period interest. In this fiscal year, most of the loans in this program also contain financing from the Department of Housing and Community Development's Multifamily Housing Program (MHP) and the Low Income Housing Tax Credit (4 percent program). CalHFA's construction loans are generally three or more times the amount of its permanent financing due to the limited debt payment capability of projects with deeply affordable rents.

- **Bay Area Housing Plan**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>2006/07 Plan Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$50 million</td>
<td>$75 million</td>
</tr>
<tr>
<td>Projected:</td>
<td>$45 million</td>
<td></td>
</tr>
<tr>
<td>Five-Year Goal</td>
<td>$75 million</td>
<td></td>
</tr>
</tbody>
</table>

The Bay Area Housing Plan provides funding for approximately 70 group homes in the San Francisco Bay area as replacement housing for the residents of the Agnews Facility for the severely developmentally disabled. The Agency will supply permanent financing for these homes based on guaranteed lease payments from the State of California to regional service providers. Bank of America is providing acquisition financing, including the necessary rehabilitation of the housing as required for the severely disabled residents. The project is distinguished by achieving an unprecedented collaboration among state and regional agencies, local nonprofit service providers, and private lenders.

- **Preservation Acquisition and Preservation Opportunity Program**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>2006/07 Plan Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$23.0 million</td>
<td>$3.0 million</td>
</tr>
<tr>
<td>Projected:</td>
<td>$9.2 million</td>
<td></td>
</tr>
<tr>
<td>Five-Year Goal</td>
<td>$6.0 million</td>
<td></td>
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</tbody>
</table>

Prop. 46 authorized the Preservation Opportunity Program, a revolving fund for the acquisition and preservation of affordable housing projects at risk of losing their affordability restrictions. These bond funds are intended to finance approximately 30% of the project's acquisition costs, with CalHFA lending the balance. Loans made from the two sources are intended to be repaid with permanent financing and be recycled for new acquisitions. Fiscal year 2005/06 saw limited activity in this program due to the low level of preservation financing in general and the limited availability of attractively priced financing.

Projected activity for the coming fiscal year is $3 million for CalHFA financing and $2 million for the Prop. 46 funds. The $5 million in Prop. 46 funds are available for this program until fiscal year 2008, when they revert back to HCD's Multifamily Housing Program.

- **Homeless and Special Needs Programs**

<table>
<thead>
<tr>
<th></th>
<th>2006/07 Plan Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$10 million</td>
</tr>
<tr>
<td>Five-Year Goal</td>
<td>$10 million</td>
</tr>
</tbody>
</table>

Special Needs financing in fiscal year 2006/07 will be carried out primarily through loans to nonprofit intermediary lenders who finance predevelopment and acquisition costs for permanent supportive housing. CalHFA expects that a $10 million capital contribution will be
made to one or more nonprofit intermediaries in fiscal year 2006/07. The program will be established as a revolving fund. The nonprofit intermediary lenders use CalHFA’s low cost funds to re-lend funds to local nonprofit housing developers constructing supportive housing. The source of funds for this program is the Housing Assistance Trust.

The Special Needs component of multifamily direct lending also provides construction, bridge and permanent financing for projects with populations that are at-risk and in need of supportive services, including the chronic homeless and those with disabilities. The program utilizes Housing Assistance Trust funds to subsidize the interest rate to a level as low as 1%. Generally, the tenants have incomes at 35% of median income, necessitating the subsidized interest rate to make the projects economically viable. Because of the need for supportive services financing and the complexity of structuring the transactions, special needs housing projects have lengthy development time frames.

- **Asset Management Portfolio Assistance**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal:</th>
<th>$ 3 million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projected:</td>
<td>$ 3 million</td>
</tr>
<tr>
<td>2006/07 Plan Goal:</td>
<td>$ 4 million</td>
<td></td>
</tr>
<tr>
<td>Five-Year Goal:</td>
<td>$20 million</td>
<td></td>
</tr>
</tbody>
</table>

Asset Management Portfolio Assistance, managed by CalHFA’s Asset Management Division, will be used for rehabilitation of 80/20 (non-Section 8) properties in the Agency’s portfolio. Funds are used on projects where Physical Needs Assessments indicate that existing repair and replacement reserves are not sufficient. The source of funding for this activity is CalHFA’s Housing Assistance Trust.
D. SPECIAL LENDING PROGRAMS

Special Lending Programs is a component of the Multifamily Programs Division. The role of Special Lending Programs is to administer unique lending activities which benefit low- and moderate-income families.

Objectives:

Special Lending Programs objective is to develop innovative financing for affordable housing with housing sponsors in markets which are not addressed through conventional CalHFA financing.

Strategies:

Focus primarily on products that facilitate affordable housing through partnerships with other housing sponsors. Strategies include:

- Provide moderate term loans to local governments for their affordable housing efforts.
- Initiate short-term site acquisition and/or predevelopment loan programs and use local governments to facilitate affordable infill for-sale housing.
- Provide equity venture capital loans for very small for-profit and nonprofit developers to enable affordable developments that would not occur without the capital infusion.
- Provide capitalization to California affiliates of Habitat for Humanity for additional affordable housing developments by purchasing and servicing qualified loans.

Program Performance and Strategy Implementation:

Following is a list of the major Special Lending programs with the applicable fiscal year and five-year goals. Also provided is a brief performance history against the current fiscal year goals for the listed programs.

- **Housing Enabled through Local Partnerships (HELP)**
  
  | 2005/06 Plan Goal: | $20 million |
  | Projected:         | $20 million |
  | 2006/07 Plan Goal: | $15 million |
  | Five-Year Goal:    | $75 million |

Introduced eight years ago, the successful HELP Program provides loans to local government entities to carry out their affordable housing priorities. In previous years, loans were made at 3% interest for a 10-year term, with the maximum loan being $2 million. HELP represents both an investment in additional homeownership and rental housing throughout California as well as an investment in new and productive working relationships with local governments, housing authorities, and redevelopment agencies.

As of the end of this fiscal year, CalHFA will have committed $148 million to 98 different localities, assisting in the production of more than 17,800 affordable housing units. Ninety-one percent of the HELP loans have been invested nearly equally in the new construction and rehabilitation of affordable rental housing. The balance of funds have supported ownership housing.
For the 2006/07 fiscal year, the proposed HELP program funding level is $15 million, to be paired with the new ownership housing program for localities described below. HELP loans will carry a 3.5 percent interest rate beginning in the 2006/07 fiscal year and will be limited to a maximum of $1.5 million.

- **Residential Development Lending Program for Localities**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$75 million</td>
<td>$10 million</td>
<td>$20 million</td>
<td>$65 million</td>
</tr>
</tbody>
</table>

With $75 million in Prop. 46 funds, the new Residential Development Lending Program (RDLP) provides funds to local government entities for the acquisition and related predevelopment costs of ownership housing in urban infill areas. The program, which will be launched this fiscal year, uses underutilized monies from Prop. 46, initially designated for mortgage insurance, and couples its assistance with CalHFA’s down payment assistance programs. The funds will leverage local public funds and conventional private financing used in the construction of ownership housing by local housing developers. $10 million is anticipated to be announced by the end of 2005/06, with the balance of $65 million to be committed in 2006/07 through 2008/09.

Offered through a competitive process similar to HELP, RDLP loans will be made at a 3 percent interest rate for a maximum 4-year term. The maximum loan will be $4 million to assist primarily in the acquisition of land for ownership housing, a portion of which will be affordable to low- and moderate-income households.

- **Small Business Loan Program**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$3.0 million</td>
<td>$0.6 million</td>
<td>$1.0 million</td>
<td>$5.0 million</td>
</tr>
</tbody>
</table>

The Small Business Loan Program lends funds to small developers for up to one-half of predevelopment expenses or $300,000, whichever is less. These funds help fill a critical gap in carrying out the necessary due diligence and preliminary architectural and engineering costs necessary to initiate projects. In previous years, loans were made at a 3.0% interest rate. Beginning in 2006/07, loans will carry a 3.5% interest rate. The loans are repaid no later than permanent financing. The source of funds for this program is the Housing Assistance Trust.

Two small developers of affordable housing received Small Business Development loans in this fiscal year. Funding for subsequent fiscal years, projected at $1 million, takes into account the resources of the new Residential Development Loan Program, which funds higher levels of acquisition and related predevelopment expenses for affordable ownership projects, through local government participation.

- **Habitat for Humanity Loan Purchase Program**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$5.0 million</td>
<td>$3.0 million</td>
<td>$5.0 million</td>
<td>$25.0 million</td>
</tr>
</tbody>
</table>
CalHFA launched its Habitat for Humanity Loan Purchase Program in 2006, issuing commitments to spend $3.1 million of qualified loans previously originated by Habitat organizations. The funds are invested to yield an approximate 4% rate to CalHFA. Initial demand for the program was somewhat lower than anticipated, but a sustainable program demand of $5 million per year is expected. The program provides for CalHFA servicing and flexibility in re-purchase options. Its purpose is to infuse capital for the growth of Habitat housing production. The source of funds for this program is the Housing Assistance Trust.
D. SUPPORT DIVISIONS

INTRODUCTION

There are eight Support Divisions: Administration, Information Technology, Financing, Fiscal Services, Legislation, Marketing, Multifamily Asset Management, and the Office of General Counsel. These divisions' roles are to assist the operating divisions in achieving the goals outlined in CalHFA's Five-Year Business Plan. These divisions also provide the day-to-day support services for our operating divisions to conceive, facilitate and execute the strategies needed for meeting customer, stakeholder and employee objectives.

The following are the individual support divisions' objectives, strategies and implementation considerations for the 2006/07 Five-Year Business Plan:

1. ADMINISTRATION

Objectives:

- Continue to recruit new staff to fill open positions.
- Using best practices as a guide, continue updating internal procedural manuals and handbooks.
- Determine best option and location for consolidating the two Sacramento locations in one location.

Strategies:

- Work within state government to update and upgrade positions.
- Continue to advertise for, interview, and select quality hires.
- Assemble a team consisting of a development consultant and a broker to fully vet all options for the Agency's eventual move.

Implementation Considerations:

The Administrative Division supports the operational needs of the Agency through both human resources and business services and has spent a considerable amount of time working toward the completion of several long term projects. Much of our equipment and furniture has been systematically upgraded. With that accomplished and no further major tenant improvements anticipated, we can redirect our attention to updating our internal infrastructure.

2. INFORMATION TECHNOLOGY (IT)

Objectives:

- Continue to provide professional, responsive IT services to daily Agency operations and ensure the legacy application systems and infrastructure continue to adequately support the Agency business processes.
• Manage collaborative project efforts to define, develop and implement appropriate technological applications and infrastructure to enhance the business processes of Homeownership loan origination, Multifamily loan origination, Financing bond and investment tracking and Fiscal Services cash receipts and disbursements, mortgage reconciliation and general ledger accounting.

• Initiate and/or complete the implementation of various support systems, including data/document management, workload management, and change management.

• Extend the use, enhance the capabilities and expand the information offerings of the Agency’s Internet and intranet web sites to improve communications and operations.

**Strategies:**

• Manage the Agency’s IT Governance structure to ensure IT and business strategic alignment and effective IT priority setting and resource allocation.

• Maintain an IT hardware and software infrastructure that is responsive to current business operations and future IT initiatives.

• Research technologies available in the marketplace and those being used most effectively by the housing finance industry and make recommendations on their potential for the Agency.

• Ensure the IT Division has the necessary organizational infrastructure, including staff skill sets, support tools, policies and practices, disaster recovery strategies, and measurement and management tools to support current operations and respond to planned IT initiatives.

• Aggressively pursue the use of technologies – such as web-based applications – that support the Agency’s strategic business initiatives.

**Implementation Considerations:**

The Division of Information Technology has had an outstanding record of maintaining the existing applications and technology infrastructure in support of the business operations of the Agency. However, many of the current applications and supporting infrastructure are at capacity and very dated and activities have been initiated to update them. By updating technology, the Agency has the opportunity to transform operations and improve responsiveness to changing business needs and business partner and consumer requirements.

Because of the dated technology and the complexity of the technical environment the IT Division is at a critical point in its development. As the Agency continues to grow and works to maintain its competitiveness within the housing finance industry, the IT Division has reached a point where a reactive approach to business is no longer sufficient to meet business needs. The Division has, with the support of Agency Senior Management, embraced a more mature, proactive approach to doing business and adopted a more strategic perspective and role within the Agency.

The Division has engaged in several activities to facilitate the shift to the more proactive approach. First, the Division is continuously reviewing organizational and technical infrastructures to identify opportunities to improve current support services and to prepare the Division to be responsive to current and future IT initiatives. Next, tools for better
tracking, communication and accountability are being implemented. Finally, structures and processes to more effectively align the Agency's strategic business plans with IT strategic and tactical planning are being defined and employed. These initiatives will lay the foundation for the IT Division to position itself as a leader in innovation for the Agency, advocating technical solutions that advance Agency goals.

3. FINANCING DIVISION

Objectives:

- Arrange the issuance of bonds.
- Identify other sources of capital.
- Support over $7.9 billion of loan production for the Homeownership, Multifamily and Special Lending units.

Strategies:

- Lower the cost of the Agency's debt through the issuance of variable rate bonds.
- Monitor the fixed income markets and the relationships of tax-exempt rates to taxable rates for opportunities to issue fixed interest rate housing bonds.
- Utilize the swap market to synthetically fix or cap the rates to hedge our interest rate risk.
- Maximize the refunding of previous years' single family tax-exempt authority.
- Recycle prepayments from existing single family 30-year mortgages.
- Issue bonds as necessary.
- Finance over $700 million of bond-funded multifamily loans over the next five years.
- Pooling loans into large financings to obtain economies of scale.
- Pledging the Agency's general obligation
- Consider incorporate economic refundings of older multifamily bonds into future transactions.
- Partner with public agencies pension funds, and Government Sponsored Enterprises (GSEs) such as Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, who support our financings by acting as investors or by providing services such as standby bond purchase agreements.

Implementation Considerations:

During fiscal year 2005/06 to date, CalHFA has already issued or contracted to issue $1.14 billion of bonds and plans to contract for another $100 million before the end of the fiscal year. Of the $1.14 billion of bonds issued, 89% were issued as variable rate, $604 million was swapped to fixed rates. As of March 31st, total variable rate debt is approximately $6.4 billion, some 87% of the Agency's total indebtedness of $7.3 billion. Bonds swapped to fixed rates total $4.6 billion.
At the end of the five-year planning period, it is possible that the Agency will have more than $12 billion of bonds outstanding, and as much as 90% may be variable rate, most of which will be swapped to a fixed rate.

4. Fiscal Services

Objectives:

- Provide superior financial management and reporting services to Agency management. Improvements are planned to integrate systems and improve the timeliness of financial reporting systems.
- Support the affordable housing mission of the Agency by servicing a wide variety of Agency loan products, including homeownership first trust deed loans, homeownership down payment assistance loans, HELP loans, loans secured by multifamily rental developments and many other specialty loan products.
- Recruit and train staff to achieve a high quality workforce.

Strategies:

- Embark on a large-scale automation project to upgrade both the hardware and software of the accounting system. The goal will be to have a more integrated system to produce more timely reports and be more responsive to today's business needs.
- Provide the highest level of customer service possible to borrowers whose loans are being serviced by the Agency.
- Search for, recruit the highest quality staff, and develop managers and supervisors to take the division to the next level.

Implementation Considerations:

The Fiscal Services Division will continue to support CalHFA activities through the receipt and disbursement of financial resources, the safeguarding of assets, the servicing of loans and by recording and reporting on financial matters of the Agency in accordance with professional standards in meeting all federal, state and indenture requirements. Additionally, the Division will continue to coordinate the annual financial audits of the Housing Finance Fund and the Housing Loan Insurance Fund. The Division is also prepared to assume additional loan servicing responsibilities as needed.

5. Legislation

Objectives:

- Advocate Agency programs and positions to Administration, California Legislative and Congressional members and appropriate stakeholder groups.
Strategies:

- Work with Agency Legal and Program staffs and interested stakeholder groups to identify needed statutory changes.
- Develop and advocate the Agency’s policy position on state and federal legislation.
- Promote the Agency before Congress, the State Legislature and the Governor’s Office.

Implementation Considerations:

The focus of the Legislative Division is to ensure that legislation which fosters CalHFA’s primary purpose of providing financing to meet the housing needs of low and moderate-income families in California is monitored, analyzed and enacted into law. Additionally, the Agency continuously reviews existing statutes to determine what changes, if any, will be required to meet the Agency’s long-term business plan objectives. This year, the Legislative Division will continue to work with Legislators and affected stakeholders to increase the amount of funding available to programs that increase the stock of housing available to low and moderate-income households, both on the rental and homeownership side of the equation.

6. MARKETING DIVISION

Objectives:

- Provide awareness of CalHFA as a primary source of below market interest rate funding for California’s affordable housing market needs.
- Promote the usage of CalHFA programs to expand affordable housing opportunities for Californians throughout the state.

Strategies:

- Continue media driven outreach efforts to increase awareness for our Agency programs.
- Develop marketing initiatives that maximize the mortgage loan and insurance volume for Homeownership, and maximize loan volume for the new Multifamily and Special Lending Programs.
- Utilize the most efficient and effective means to reach business partner and stakeholder target audiences.
- Use product and revised program initiatives as the platform for marketing and outreach efforts.
- Focus Homeownership marketing efforts in localities that have the greatest affordable housing inventory (e.g., housing at or below our sales price limits).
- Provide outreach support for Prop. 46 programs and projects.

Implementation Considerations:

The marketing team will focus its efforts on increasing the awareness and understanding of the CalHFA brand and programs with its customers, business partners, stakeholders and employees concerned with the need for affordable housing in California. We will maintain our outreach activities to promote key CalHFA Homeownership, Mortgage Insurance, and
Multifamily programs. The 2006/07 Marketing plan will provide support to the Divisional program goals outlined in the Business Plan. Additionally, marketing support will be provided for key Prop. 46 programs to help ensure the timely use of the funds.

7. MULTIFAMILY ASSET MANAGEMENT

Objectives:

- Protect the Agency’s loans through financial monitoring, physical inspections, and the use of technology to forecast financial performance and manage risk.
- Provide financial and management compliance monitoring on behalf of HUD.
- Protect CalHFA’s rights, the owner/agent’s rights and tenants’ rights through the interpretation of the Regulatory Agreement, the HUD Manual 4350.3, other HUD directives and state laws.

Strategies:

- Negotiate for increased affordability in existing projects when opportunities arise to lower their loan rates.
- Assign staff to work closely with lower performing assets to develop and resolve financial and physical deficiencies to maintain long-term viability of asset.
- Complete sale of five REO (real estate owned) properties.
- Assess financial viability of recapitalizing existing Section 8 agency portfolio.

Implementation Considerations:

The Asset Management Division is committed to supporting the Agency’s Business Plan to ensure the financial, physical and public purpose goals of the Agency throughout the loan term.

The agency’s Section 8 portfolio is now over 25 years old. Most of the Section 8 loans are 30- or 40-year term with matching subsidy contracts terms. Years of flat rents with no HUD-approved rent increases has left many properties undercapitalized and in need of physical repairs. At-risk properties have been identified and the division is working closely with Section 8 borrowers to locate financial sources to correct the deficiencies. The agency has a good record of seeking and obtaining HUD approval to “give back” earned surplus funds generated by individual projects to correct deficiencies for the post-1980 projects where earned surplus generated is project specific. For the pre-1980 projects, where the agency has control of the earned surplus funds in a general pool, a low rate loan program has been implemented.

The agency is working to assess the feasibility of providing a preservation loan program for in-house Section 8 portfolio owners who wish to recapitalize their properties and remain in the affordable housing arena for a new loan term. The 30-year contracts begin expiring en-masse in 2013. All Section 8 owners have the right to sell or convert their properties to market rate once their 30- or 40-year commitment to HUD and CalHFA ends.

The division continues to seek ways to use technology to improve financial forecasting and trending techniques to better manage risk.
8. OFFICE OF GENERAL COUNSEL (OGC)

Objectives:

- To provide legal services to the Board, the Executive Director and the Agency equal in scope and quality to those available to private businesses.
- To fully utilize legal technology to provide state of the art support capability.
- To fully develop both in-house and outside legal resources to meet the complex business demands of the Agency.

Strategies:

- Assign attorneys to work closely with client divisions within the Agency, both to develop and maintain client relationships, and to obtain the specialized business knowledge needed to deal with each division’s unique legal needs.
- Continue to utilize i-Manage document management software, PDF document conversion software, and document imaging technology. OGC is exploring web based document acquisition and editing to allow interested parties to work collaboratively in complex transactions. OGC has also developed, with the IT Division, software to manage file location and related database applications.
- Provide up-to-date legal resources by developing in-house legal talent and maintaining relationships with specialized outside counsel.

Implementation Considerations:

OGC recognizes the need to continuously examine and improve the delivery of legal services, to keep pace with the real estate finance industry and the state’s delivery of affordable housing to Californians.
V. FINANCIAL SUMMARY

The purpose of the Financial Summary is threefold: to present the Agency's equity position as of September 30, 2005; to describe the projected effect on the Agency's equity of the assumptions made in the Agency's Five-Year Business Plan, and to provide a detailed description of the factors influencing restriction of the Agency's equity.

DISCUSSION OF EQUITY:

"Equity" is synonymous with "net assets". It is arrived at by applying the Agency's assets against its liabilities at any given point in time. As of September 30, 2005, the Agency had total assets of $9.5 billion, comprised primarily of mortgage loans receivable and total liabilities against those assets of $7.9 billion is comprised primarily of bond indebtedness. The residual restricted assets of $1.2 billion in the Housing Finance Fund and $59 million in the Housing Loan Insurance Fund represent the Agency's equity position at September 30, 2005.

Although the amount of the Agency's total equity is readily identifiable, its liquidity is not. The majority of the assets underlying the equity are in the form of mortgage loans receivable, and as the following discussion will illustrate, most of the Agency's equity is allocated, or restricted in the form of reserves, for various purposes.

Since the term "reserve" has different meanings in different financial settings, the term may be a misnomer as it relates to the Agency's funds if there is an assumption that the reserves are in excess of the Agency's needs. The Agency's restricted reserves are not surplus moneys as used in the context of state agency fund designations. The Agency's reserves are, instead, designations of restricted funds as required of any private financial institution. As described in the Agency's 2005/06 Annual Report, in the notes to the audited Financial Statements, all of the Agency's equity is restricted either by indenture or by statute, or invested in capital assets.

The categories "Restricted by Indenture" and "Restricted by Statute" reflect the Agency's restricted equity. Pursuant to state statutes, resolutions and indentures, specified amounts of cash, investments and equity must be restricted and reserved. The equity categorized as Restricted by Indenture represents the indenture restrictions of specific bonds, whereas the Restricted by Statute category represents equity that is further restricted to fund deficiencies in other bonds, programs or accounts. The Housing Finance Fund maintained all required balances in the loan and bond reserve accounts as of September 30, 2005.

Generally, there are indenture covenants requiring that equity be retained under the lien of each indenture until certain asset coverage tests, as well as cashflow tests, have been met. Other restricted reserves are pledged to meet the Agency's bond and insurance general obligations, continuing program maintenance and ongoing administrative costs.

ALLOCATION OF CALHFA EQUITY:

The Agency's equity balance is contained within a series of funds and accounts, including bond funds and other types of restricted funds and accounts. Within these funds and accounts, equity has been classified according to the purpose it is intended to serve. These purposes include providing security for current and future bond issues, providing for emergency needs, leveraging restricted reserves for non-bond housing assistance programs, and providing for future operating expenses and financing costs.
The Agency's equity is allocated into three main restricted reserve categories: Restricted by Indenture, and Restricted by Statute, and Invested in Capital Assets. They are described as follows:

**Restricted by Indenture:**

The amount classified as Restricted by Indenture ($723 million) includes amounts required to be retained in the various bond indenture funds. This total provides security for the specific bonds to which they are assigned.

**Restricted by Statute:**

To comply with state law, rating agency requirements, credit enhancement agreements, and investor guarantees, the Agency is also required to maintain restricted reserves in addition to the above-described Indenture Restricted Reserves.

The amount classified as Restricted by Statute ($469 million), consisting of amounts from the Emergency Reserve Account, the Supplementary Bond Security Account, the Housing Assistance Trust, the Contract Administration Programs, and the Operating Account provides general support for all obligations of the Agency, including general obligation bonds, interest rate swaps, and mortgage insurance.

The Agency has no taxing power, and bonds issued by the Agency are not obligations of the State of California. Some Agency bonds are issued as general obligations of the Agency, however, and are payable out of any assets, revenues, or moneys of the Agency, subject only to agreements with the holders of any other obligations of the Agency. This pledge is in addition to that of the specific revenues and assets pledged under the indenture. The Agency has received a Standard & Poor's rating of AA- on its general obligation pledge and a Moody's Investor Service rating of Aa3.

The Agency has $1.5 billion of bonds outstanding that are backed by CalHFA's general obligation. The Agency has also extended its general obligation pledge to $361 million of multifamily loans insured by FHA under its Risk Share Program. Our risk is 50% of this amount, or $181 million. In addition, the Agency pledges its general obligation for another $3.7 billion to its swap counterparties for the interest rate swaps that are currently outstanding.

While most of the Agency's reserves are contractually restricted as security behind the $7.9 billion in Agency liabilities and the $1.3 billion in single family mortgages insured by the Agency, other reserves serve a "dual purpose." These reserves provide the Agency with the resources to meet its capital adequacy requirements, general obligation pledge risk reserves, and operating funds. At the same time, prudent management of these accounts has allowed the CalHFA Board to carefully apply them to necessary uses under the Operating Account, Emergency Reserve Account, and the Housing Assistance Trust.

To maintain the necessary security reserves, it is important that these accounts be invested in uses that will preserve principal and generate revenues to the Agency. This is necessary because fee revenues will decline as the bond issues mature, but our administrative and monitoring responsibilities will continue for the up-to-40-year life of the bonds and loans. It is planned that during these later years scheduled draws from the Emergency Reserve Account, Housing Assistance Trust, Operating Reserves and other accounts will be used to support the
ongoing bond and loan administrative costs. Accordingly, when these funds are deposited or "invested" in various Agency programs, they are carefully managed to maintain low levels of risk and ultimate liquidity for long-term bond and loan management purposes.

The Contract Administration Programs ($122 million) category includes amounts related to programs originally funded with appropriations from the State and is restricted by State statutes. The equity is therefore not available for allocation to other Agency purposes.

Within the Operating Account, the Agency maintains a $34 million operating reserve, equivalent to one year's operating budget, including a $7 million revolving fund for bond financing expenses. The revolving fund serves to provide short-term advances to pay the initial costs of bond issuance, pay for interest rate hedges, pay debt service on the Housing Program Bonds, and pay other costs of developing bond programs. Such allocations of equity ensure the continued administration of the Agency's programs and also serve to meet rating agency liquidity and capital adequacy requirements.

**LOSS PROTECTION:**

**Rating Agency Requirements:**

The credit rating services (Moody's Investors Service and Standard & Poor's) provide certain quantitative guidance regarding the need for reserves to protect against certain quantifiable risks of loss. We have always judged the soundness of our Business Plan by projecting financial results for the five-year period and determining that these projections were consistent with rating agency criteria.

Both rating agencies require the Agency to establish reserves for each bond issue, intended to protect the bondholders and the Agency in the event that the actual cashflows associated with a bond issue differ from the cashflows projected at the time of issuance of the bonds. In order to determine the size of the reserves to be established for each issue, the rating agencies analyze the performance of the projected cashflows and assets at the time of bond issuance under a "worst case scenario". The Agency is required to set aside and maintain reserves in an amount necessary to cover any projected cashflow shortfalls under these worst-case scenarios. Such reserves represent a direct allocation and restriction of the Agency's equity.

In addition, Standard & Poor's provides certain formulas for determining capital adequacy for its "Top Tier" designation and its issuer, or general obligation, credit rating.

The guidelines Standard & Poor's uses to evaluate housing finance agencies include: number of years issuing bonds, administrative capabilities, investment policy, internal controls, loan portfolio quality, and maintenance of residual fund balances (as defined by S&P) equal to 4% of non-AAA bonds outstanding. One-half of these required residual balances (2% of non-AAA bonds) must be liquid assets.

In order to assess the adequacy of the Agency's equity at any point in time, S&P analyzes the Agency's finances to determine the amount of residual equity remaining after providing for any potential risks which have not already been addressed to S&P's satisfaction. In addition, S&P evaluates various financial ratios, which are indicators of leverage, liquidity, and general obligation debt exposure.
The Agency's general obligation pledge currently stands behind $7.9 billion of single family and multifamily debt, $181 million of multifamily loans subject to FHA Risk Share, and $3.7 billion to our swap counterparties for our outstanding interest rate swaps. It is anticipated that, during the term of the Plan, direct utilization of the Agency's general obligation will be greatly expanded, as shown in the table below. In order to continue to meet the capital adequacy requirements of Moody's and S&P, the Agency must reserve equity against these pledges.

<table>
<thead>
<tr>
<th>Pledges of CalHFA General Obligation (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Pledges</td>
</tr>
<tr>
<td>CalHFA G.O. Bonds</td>
</tr>
<tr>
<td>FHA Risk Share Program</td>
</tr>
<tr>
<td>Interest Rate Swaps</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The rating agency assessment of CalHFA equity is very similar to the determination of capital adequacy of financial institutions and is necessary for the financial well-being of CalHFA as the state's affordable housing bank. In addition, other benefits of meeting the rating agencies' capital adequacy requirements include:

- higher bond ratings, resulting in a lower cost of funds,
- reduced interest expense to the home buyer or multifamily project sponsor,
- continuation of a mortgage insurance program,
- elimination of special hazard insurance requirements, and
- reduction or suspension of other credit enhancements on Agency bond issues.

The costs of not meeting these requirements include:

- the possibility of a technical default under one of the covenants contained in our swap, bond, liquidity, or bond insurance agreement,
- jeopardizing the Agency's Aa3/A+ ratings of its insurance claims paying ability,
- jeopardizing ratings on the Agency's currently outstanding bonds,
- an increase in the Agency's cost of funds,
- increased cost of credit enhancement and liquidity for variable rate bonds,
- less favorable terms for new financial agreements including interest rate swaps, and
- reduction in the number of willing financial partners such as investors, bond insurers, liquidity providers, and swap counterparties.

CalHFA first earned its Top Tier designation in 1986 and has achieved the performance levels necessary to retain this honor continuously since that date. We fully intend to continue the strong management practices, sound program planning, and internal control systems that have allowed us to maintain this designation. We also expect to achieve financial results in the future consistent with our current issuer credit ratings from both Moody's and Standard & Poor's.
Other Prudent Reserves:

A portion of the Agency’s equity is restricted to protect the Agency’s assets from potential losses due to interest rate risk, natural catastrophes such as earthquakes and floods, risk associated with the multifamily loan portfolio, negative arbitrage, uncollateralizable investment agreements, and unanticipated interest rate swap terminations.

- Interest Rate Risk

CalHFA’s variable rate bond strategy is the key to its ability to offer attractively priced loan products in today’s highly competitive, mortgage marketplace. Utilizing variable rate bonds, while hedging long-term exposure with interest rate swaps, enables borrowers to take advantage of CalHFA’s significantly reduced cost of funds. In addition, the lower cost of funds provides CalHFA with an opportunity to modestly increase its capital base in spite of lending at the lowest rates in its history. As of March 31, 2006, the Agency had $6.41 billion of variable rate bonds outstanding, and another $100-150 million may be added before the end of the 2005/06 fiscal year. It is possible that another $1.4 billion may be issued each year going forward for the life of the Plan.

Given the Agency’s variable rate bond strategy, it should set aside reserves to cover the risk of rising rates, the costs of acquiring interest rate hedges, and certain risks related to such hedges. For example, hedges we might enter into to reduce our tax-exempt interest rate risk are likely to leave us exposed to the risk of tax law changes that would reduce or eliminate personal and corporate income taxes. Another risk would be counterparty failure in connection with an interest rate swap or cap. In this regard, it should be noted that as of March 1, 2006, the market value of the Agency’s 100+ interest rate swaps was a negative $199 million. What this means is that, if all our counterparties were to fail, the Agency would owe termination payments in this amount. In addition, continued high incidences of single family loan prepayments could upset the balance between the notional amount of the swaps and the outstanding amount of related variable rate bonds.

Because interest rates could rise, either because the Federal Reserve raises short-term rates or because changes in tax law could reduce the value of the tax exemption, the Agency needs to set aside a substantial reserve against this risk.

- Natural Catastrophes

In order to provide more financing for affordable housing in high-cost areas of the state, the Agency petitioned the rating agencies to allow a higher percentage of home loans to be made to purchasers of condominiums. The rating agencies agreed, but only if the Agency would establish a reserve in an amount equal to 1% of the unpaid principal balance of such loans to effectively insure the loan portfolio against losses in the event of an earthquake. The Agency currently has in its portfolio a total of $1.2 billion of loans for condominiums. A portion of the Agency’s multifamily loan portfolio is insured under a $50 million multifamily earthquake and flood insurance policy which has a 5% deductible and does not provide for loss of income. The Agency has restricted equity to supplement the coverage not provided by the policy.

- Project Maintenance

Equity is restricted to protect the Agency from possible losses on multifamily project loans. It should be recognized that the Agency could be called upon at any time to meet certain deficits
as a result of debt service shortfalls on project loans. Given the size of the Agency’s $1.4 billion multifamily loan portfolio and the substantial pipeline of new loans to be originated or acquired, reserves must be available as a reasonable protection from late payments, emergency maintenance needs or various cashflow shortfalls. One type of potential cashflow shortfall could result if HUD is unable to extend Section 8 Housing Assistance Payments contracts to the final maturity of our loans.

- Negative Arbitrage

The Agency expects to continue to be unable to invest a portion of the proceeds of its bonds and certain loan prepayments at rates equal to the cost of funds of each transaction. Equity has been reserved to protect the Agency against such negative arbitrage and to ensure the Agency’s ability to pay debt service on these bonds.

- Investment Risks

A portion of the Agency’s earlier investment agreements do not contain collateralization requirements. During the term of these agreements, the Agency’s principal and interest are potentially at risk. The Agency has allocated equity to provide liquidity to meet debt service obligations in the event one or more of these investment agreement providers experiences financial difficulty.

**Equity Analysis by Fund and Account:**

The Agency’s total equity at September 30, 2005 was $1.2 billion (Housing Finance Fund) and $59 million (Housing Loan Insurance Fund). All of this equity is restricted per the requirements described previously and as detailed below. As approved by the Board and within rating agency standards, the Agency reinvests and leverages a portion of its restricted equity to support Housing Assistance Trust programs not funded through the use of bond proceeds.

**Bond Indenture Equity:**

As of September 30, 2005, $723 million of the Agency’s total equity is restricted within the bond indentures. All of the bond indenture equity is subject to the indenture and rating agency requirements described above, and a portion of the bond indenture equity supports the Agency’s operating budget.

**Contract Administration Programs:**

The Agency administers loan and grant programs for the Rental Housing Construction Program, the School Facilities Fee Down Payment Assistance Program, and the California Homebuyer’s Down Payment Assistance Program. Funding of these programs was appropriated by the legislature to other departments and agencies within the state that have contracted with the Agency for this purpose. The equity of $95.4 million at December 31, 2005 is unavailable for Agency reallocation. This portion of the Agency’s equity will grow as Prop. 46 programs are funded.

**Housing Assistance Trust (HAT):**

As of September 30, 2005, HAT accounts for $190.2 million of the Agency’s total equity. All of the equity in HAT is required to meet general obligation pledges and capital adequacy
requirements. While meeting these financial means requirements, the Agency may also invest these funds in support of Agency programs which are not otherwise funded by bond proceeds.

Through HAT, CalHFA invests in a number of special lending programs which are targeted to special affordable housing needs in support of the primary Homeownership and Multifamily lending programs and in support of the mortgage insurance programs. Prudent management consistent with rating agency standards allows CalHFA to invest some of its restricted reserves in Agency programs through the Trust and still meet its capital adequacy and reserve requirements. These special HAT programs are discussed elsewhere herein.

The concept of using HAT as a means for making program-related investments of restricted reserves makes HAT ideal as a revolving loan fund for a variety of purposes and programs. Moneys in HAT will continue to be utilized for short and intermediate term loan warehousing purposes in support of the Agency's main line lending programs. Examples of these kinds of investments include warehousing of loans that await assignment to bond issues, warehousing of permanent multifamily loans, and warehousing of multifamily loan participations that cannot be financed with federally tax-exempt bonds.

Supplementary Bond Security Account:

The statutorily established Supplementary Bond Security Account (SBSA) accounts for $58.7 million of the Agency's equity at September 30, 2005. This equity is subject to many influencing factors such as rating agency requirements, loss protection against loan default risks, interest rate risks, natural catastrophes, and negative arbitrage. The SBSA is being used to indemnify the Housing Loan Insurance Fund against losses on certain CalHFA loans the Agency must insure, under the terms of its bond indentures, that may be supplemented or replacement coverage. In addition the SBSA may be used in the future to insure deferred-payment loans.

Based on the bonds outstanding to date and estimates of the bonds to be issued and loans to be originated, the Supplementary Bond Security Account will be fully pledged for the duration of the Five-Year Business Plan.

Emergency Reserve Account:

The Emergency Reserve Account (ERA) accounted for $57.8 million of the Agency's equity at September 30, 2005. The equity within the ERA enables the Agency to meet its rating agency requirements for its general obligation pledges and the maintenance of its capital adequacy requirements. It provides the primary source of loss protection for the Agency's assets and has been reinvested in support of the Agency's insurance programs.

All of the ERA equity and the equity of other accounts back the Agency's general obligation bonds of $1.5 billion. The Agency's general obligation will continue to be pledged to provide security for bonds to interest rate swap counterparties.

All of the equity in the ERA supports the maintenance of the Agency's issuer credit ratings, top tier designation and capital adequacy position. The maintenance of these reserve requirements at the levels prescribed by the rating agencies is as critical to the Agency's ability to achieve its mission as are the regulatory capital requirements of any other conventional marketplace lending institution.
Because the Emergency Reserve Account does not need to be held entirely in liquid form, it currently serves as a source to warehouse multifamily loans. Although in general the ERA is potentially available for legal claims and risk management purposes, the following describes how the amounts on deposit in the ERA are provisionally allocated to particular contingencies. These allocations are indicated for administrative purposes only and do not represent limitations on the use of the ERA for each contingency category. The account has multiple obligations which potentially could greatly exceed its $57.8 million balance.

**Mortgage Insurance:**

The Agency's Housing Loan Insurance Fund has restricted reserves of $59 million. The Agency's Five-Year Business Plan has a goal of insuring $3.6 billion in new mortgages. Housing Finance Fund reserves would be available to be loaned to the Insurance Fund to increase the amount of its loan loss reserves, should the need arise.

On March 20, 2003, the Board of Directors authorized the Agency to provide financial support to the Housing Loan Insurance Fund from moneys in the much larger Housing Finance Fund by means of a line of credit of up to $100 million. The purpose of the line of credit is to satisfy credit rating agency concerns about the Insurance Fund's claims-paying ability during times of severe economic stress when the insurance Fund's reserves may conceivably become depleted as more and more claims are paid. Draws on the line of credit from the Housing Finance Fund will constitute interfund loans.

**General Obligations:**

CalHFA has $1.5 billion in outstanding bonds that are backed, in whole or in part, by the Agency's general obligation (not the state's) in addition to any external credit enhancement (bond insurance or letters of credit). The rating agencies use the shortfall resulting from the worst-case cashflows on our general obligation bonds as a charge against equity. CalHFA maintains a liquidity reserve for part of this requirement in the ERA. The balance of the reserves is applied from other sources such as HAT loans and various bond issues. The reserve is available in the event that the Agency is called upon to make advances to general obligation bond programs to pay debt service or to reimburse the bond insurer for losses or liquidity banks for purchasing variable rate bonds that could not be remarketed. The reserve is also available for protection against potential losses from interest rate fluctuations and from counterparty failure related to interest rate swaps or other hedge instruments. One use of the Emergency Reserve in this regard is the provision of interest rate caps to $35 million of floating-rate single family bonds. Under these internal agreements, the Emergency Reserve Account will be drawn on to pay any interest costs in excess of the cap rates. In addition, to cover worst-case deficiencies in this fiscal year's new bond issues we have made temporary pledges of $81 million that will be released upon delivery of new cash flow runs. This use of the Agency G.O. will be duplicated in future issues.

**Investment Reserves:**

CalHFA's bond issues create capital in the form of proceeds for the purchase of mortgages. As described in the CalHFA Investment Policy, usually these proceeds are invested with financial institutions with whom we enter into investment agreements. During the term of these agreements, principal and interest are at risk, especially from certain early investment agreements which do not contain collateralization requirements. A portion of the ERA is allocated to provide liquidity to meet debt service obligations in the event of financial difficulties.
with an investment agreement until such time as the funds can be withdrawn from the
investment accounts.

Self-Insured Earthquake Coverage:

To provide affordable single family housing in high-cost regions of the state, CalHFA petitioned
the rating agencies to allow a higher percentage of loans to be made for purchasers of condos.
The rating agencies agreed, but only if the Agency established a non-bond reserve of 1% of the
loan amount for all condo loans made in earthquake zone areas. The Agency has a total of
$1.2 billion of loans on condos in its portfolio. The Agency maintains a 1% reserve for new and
resale condos in a Supplementary Reserve Account for $12 million.

The Agency has also obtained earthquake and flood insurance for its multifamily portfolio with a
5% deductible. If called upon, the deductible of $2.5 million (calculated on the probable
maximum loss of $50 million) is available in this account.

Asset Management:

Various multifamily properties may have maintenance and debt service shortfalls due to a
variety of factors. The Agency may be called upon at any time to meet certain funding needs
(i.e., property taxes, utilities, workouts, etc.). A reserve of $3 million is a reasonable liquidity
amount given the size of the Agency’s growing multifamily loan portfolio, now totaling $1.4
billion of unpaid principal balance.

Operating Account:

The Operating Account accounts for $34 million of the Agency’s equity at September 30. This
equity is restricted for meeting the Agency’s capital adequacy and general obligation
requirements, as well as funding the Agency’s operating budget and financing reserves.

Business Plan Assumptions:

Cashflow analyses of the Agency’s bond programs are again this year being prepared for the
purpose of determining the financial strength of these programs. While these cashflow
analyses are being prepared primarily for review by the credit rating agencies, they will also be
used by the Agency to analyze the current equity position of any program and to forecast future
net revenues under different interest rate scenarios. Applying the factors influencing
restrictions of the Agency’s equity, the resulting analysis quantifies the amount of restricted
equity which could be reinvested in support of new or expanded programs as described in the
Business Plan and projects the timing of such reinvestment opportunities.

Implementation of the Five-Year Business Plan as presented in this summary is dependent
upon realization of the underlying assumptions. The plan is intended, however, to remain
flexible in the event that actual events differ from these assumptions.

Major Assumptions:

- Origination of $6.5 billion of new home loans to be financed with a combination of tax-
exempt and taxable bonds.
• Commitments of $780 million of multifamily loans to be financed with agency general obligation, issued as either tax-exempt or taxable bonds.
• Insurance of approximately $3.6 billion of mortgages.
• Sufficient Private Activity Bond (PAB) allocation. In the out years of the Plan, increasing amounts of PAB may be required if our opportunity to recycle prior single family allocation by means of replacement refundings or direct purchase of replacement loans. Recycling opportunities may decline because of the delayed effect of certain prior changes to federal tax law.
• Continued ability to rely on variable rate financing structures (both swapped and unswapped) to achieve interest rate savings. If bank liquidity for put bonds becomes unavailable, other variable rate structures (auction or indexed bonds) would need to be cost effective.
• Agency fund balances are adequate over the life of the Plan to maintain capital reserve requirements related to credit adjustments, real estate losses and Agency general obligations.

Other Assumptions:

Several other programmatic and financial assumptions were made to arrive at the projections comprising the Agency’s Five-Year Business Plan. The following is a summary of such assumptions:

• Home loan portfolio maintains its current delinquency ratio and REO experience.
• Capital reserve requirements for multifamily loans can be reduced through risk-sharing agreements and as a result of continued low delinquency and default rates.
• Homeownership prepayments to be received according to the following table:

<table>
<thead>
<tr>
<th>MORTGAGE RATES</th>
<th>% OF PSA RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 4.00%</td>
<td>100%</td>
</tr>
<tr>
<td>4.00% - 4.99%</td>
<td>157%</td>
</tr>
<tr>
<td>5.00% - 5.99%</td>
<td>323%</td>
</tr>
<tr>
<td>6.00% - 6.99%</td>
<td>541%</td>
</tr>
<tr>
<td>7.00% - 7.99%</td>
<td>503%</td>
</tr>
</tbody>
</table>

• Average investment rate in the absence of investment agreements to equal one month LIBOR.
• Obtain adequate salary levels to recruit and retain qualified individuals to perform at the level necessary to maintain our bond ratings.
• Financial strength of the entire multifamily portfolio to remain at the current level.
• Interest rates remain sufficiently low during the life of the Plan so that significant economic savings can continue to be generated by means of variable-rate bond strategies, especially when applied to the refunding of prior bonds.
• Operating budget is assumed to increase an average of 5% per year.
• Relatively stable California real estate valuations.
• No unexpected insurance losses.
• No principal losses from investments.
• No failures of swap counterparties or unanticipated swap termination events.
• Only minor changes in the value of the federal tax exemption.
RESOLUTION 06-13

WHEREAS, pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), the California Housing Finance Agency ("Agency") has the authority to engage in activities to reduce the cost of mortgage financing for home purchase and rental housing development, including the issuance of bonds and the insuring of mortgage loans;

WHEREAS, the Agency's statutory objectives include, among others, increasing the range of housing choices for California residents, meeting the housing needs of persons and families of low or moderate income, maximizing the impact of financing activities on employment and local economic activity, and implementing the objectives of the California Statewide Housing Plan;

WHEREAS, the Agency desires to amend Resolution 05-23 adopted on May 12, 2005, which committed the Agency to a Business Plan for the years 2005/2006 through 2009/2010; and

WHEREAS, the Agency has presented to the Board of Directors a fiscal year 2006/2007 through 2010/2011 annual update of the Business Plan, in order to adjust to the ever changing economic, fiscal and legal environment, which updated Business Plan is designed to assist the Agency to meet its statutory objectives, to address the housing needs of the people of California and to provide the Agency with the necessary road map to continue its bond, mortgage financing, and mortgage insurance activities well into the future.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Agency as follows:

1. The updated 2006/07-2010/11 Five-Year Business Plan, a copy of which is attached hereto and made a part hereof, is hereby fully endorsed and adopted.

2. In implementing the updated Business Plan, the Agency shall strive to satisfy all the capital adequacy, reserve, and any other requirements necessary to maintain the Agency's top-tier designation by Standard & Poor's Corporation, to maintain its general obligation credit ratings and the current credit ratings on its debt obligations, to comply with the requirements of the Agency's providers of credit enhancement, liquidity, and interest rate swaps and caps, and to satisfy any other requirements of the Agency's bond and insurance programs.

3. Because the updated Business Plan is necessarily based on various economic, fiscal and legal assumptions, in order for the Agency to respond to changing circumstances, the Executive Director shall have the authority to adjust the Agency's day-to-day activities to reflect actual economic, fiscal and legal circumstances in order to attain goals and objectives consistent with the intent of the updated Business Plan.
Resolution 06-13
Page 2

I hereby certify that this is a true and correct copy of Resolution 06-13 adopted at a duly constituted meeting of the Board of Directors of the Agency held on May 11, 2006, at Burbank, California.

ATTEST: _______________________
Secretary
State of California

MEMORANDUM

To: Board of Directors

Date: May 11, 2006

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: BOARD RESOLUTION 06-14: OPERATING BUDGET 2006/2007

Given our relative status-quo Business Plan, the Agency has completed a thorough review of its resources and made determinations as to how our resources can best be used to accomplish our business goals. We are proposing a relatively flat operating budget with only a 3% increase.

Given our recruiting challenges, the focus of our attention this year will be on upgrading our internal infrastructure. Therefore, positions have been redirected to accomplish these much needed best practice changes. Specifically, two positions have been added to the Financing Division to enable cash flow management to be performed internally. Information Technology has also added two positions to further support the Agency's ambitious enterprise-wide IT initiatives. In addition, one position has been added to the Administration Division to support recruitment activities. Lastly, two positions have been added to support on-going workload – one position in the Homeownership Special Lending Unit and another in the Fiscal Services Purchasing Unit. By redirecting positions and resources, only two new positions are actually proposed to total authorized positions in the budget.

Despite the addition of the two new positions, Personal Services expenditures increased only slightly due to limited salary increases that were negotiated in collective bargaining contracts for attorneys and inspectors.

Adjustments to our operating expense line items have also been incorporated after thorough review. Specifically, there is a 21% increase in our Central Administrative Services. This line item funds pro rata services provided to us by other state departments and also funds health benefits for retirees of the Agency. (This is a cost item we have no control over.)
The other significant increase is the line item for Consulting and Professional Services. While consulting for Legal has decreased by 13%, the IT consulting request has increased by 159%. (It is also important to note that the line item for IT has decreased by 34% due to more accurately reflecting appropriate cost under Consulting and Professional Services.) In budget year 2005/06, significant investments were made to address the issue of information technical infrastructures and legacy applications that are at capacity and very dated. IT projects were initiated to update the Agency’s network, the server and desktop infrastructures and to enhance the business practices and operations of the IT organization. Significant IT projects also were initiated to update the business processes and define the requirements for new application systems to support the major business operations for the Agency including Homeownership loan origination, Multifamily loan origination, Financing bond and investment tracking, and Fiscal Services cash receipts, mortgage reconciliation and general ledger accounting. To accomplish these very ambitious IT goals, the Agency has identified and allocated the significant resources necessary to support the development and implementation phases of these critical IT initiatives.

Given our Business Plan goals, I believe this years’ focus is best served by turning inward to build our business infrastructure. Only by having an up-to-date infrastructure can we remain relevant in the rapidly changing lending industry as well as incorporating best practices into all of our business units. We will continue to work on the recruitment effort. When we are able to hire, we want to be positioned to focus all our talent and resources on the fight for affordable housing.

Once again, it is important to note that the Agency’s operations are completely self-supporting. As such, they do not adversely affect State expenditures, and, in fact, the Agency’s accomplishments directly aid the State economy.
April 25, 2006

CALIFORNIA HOUSING FINANCE AGENCY
2006/07
HOUSING AND INSURANCE OPERATING FUNDS
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>EXPENDITURE ITEM</th>
<th>Actual 2004-05</th>
<th>Budgeted 2005-06</th>
<th>Proposed 2006-07</th>
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<tbody>
<tr>
<td>PERSONAL SERVICES</td>
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<tr>
<td>Authorized Salaries</td>
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<td>Estimated Salary Savings</td>
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<td>(928)</td>
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<td>Staff Benefits</td>
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<td>TOTALS, Personal Services</td>
<td>$19,761</td>
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OPERATING EXPENSES AND EQUIPMENT

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<thead>
<tr>
<th></th>
<th>Actual 2004-05</th>
<th>Budgeted 2005-06</th>
<th>Proposed 2006-07</th>
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<tr>
<td>General Expense</td>
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<td>Communications</td>
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<td>Training</td>
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<tr>
<td>Facilities Operation</td>
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<td>Consulting &amp; Professional Services</td>
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<td>*Central Admin. Serv.</td>
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<td>Equipment</td>
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<tr>
<td>TOTALS, Operating Expenses and Equipment</td>
<td>$12,843</td>
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TOTALS, EXPENDITURES

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* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.
**April 25, 2006**

CALIFORNIA HOUSING FINANCE AGENCY  
2006/07  
CalHFA FUND OPERATING BUDGET  
DETAILS OF EXPENDITURES  
(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>EXPENDITURE ITEM</th>
<th>Actual 2004-05</th>
<th>Budgeted 2005-06</th>
<th>Proposed 2006-07</th>
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<td>$17,748</td>
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| OPERATING EXPENSES AND EQUIPMENT        |               |                  |                 |
| General Expense                         | 1,154         | 765              | 725             |
| Communications                          | 579           | 580              | 637             |
| Travel                                  | 448           | 412              | 472             |
| Training                                | 137           | 135              | 135             |
| Facilities Operation                    | 2,559         | 2,700            | 2,794           |
| Consulting & Professional Services      | 3,465         | 4,945            | 5,797           |
| *Central Admin. Serv.                   | 1,297         | 1,093            | 1,355           |
| Information Technology                  | 915           | 1,200            | 800             |
| Equipment                               | 397           | 450              | 400             |
| TOTALS, Operating Expenses and Equipment| $10,952       | $12,279          | $13,115         |

| TOTALS, EXPENDITURES                    | $29,896       | $33,985          | $35,034         |

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.
April 25, 2006

CALIFORNIA HOUSING FINANCE AGENCY
2006/07
MIS FUND OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>EXPENDITURE ITEM</th>
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<th>Budgeted 2005-06</th>
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OPERATING EXPENSES AND EQUIPMENT

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TOTALS, EXPENDITURES

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* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.
CALIFORNIA HOUSING FINANCE AGENCY
2006/07

SUMMARY
PERSONNEL YEARS AND SALARIES

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*This figure represents a normal rate of vacancies and lag time in refilling positions in accordance with State budget practices.
## 2006/2007 Personnel Years and Salaries

### ORGANIZATIONAL UNIT

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<th>Classification</th>
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<th>Total</th>
<th>Hours</th>
<th>Rate</th>
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**Totals, Fiscal Services:**

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### Legal Services:

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**Totals, Legal Services:**

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**Totals, Marketing Services:**

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# Information Services Division

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# Totals, Information Services Division

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<th>19.0</th>
<th>$923,940</th>
<th>$1,201,548</th>
<th>$1,289,112</th>
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</table>

# Technical Services:

| Total Services: | 148.1 | 19.0 | 19.0 | $923,940 | $1,201,548 | $1,289,112 |

# Temporary Help

| Total Services: | 9.2 | 3.4 | 3.0 | 383,830 | 141,500 | 126,000 |

# Overtime

| Total Services: | 0.0 | 0.0 | 0.0 | 54,011 | 45,500 | 54,000 |

# Totals, Operations

| Total Services: | 134.5 | 148.4 | 154.0 | $7,770,631 | $9,472,134 | $9,770,689 |

# LENDING PROGRAMS

## Homeownership Programs

### Homeownership Lending:

| Director | 1.0 | 1.0 | 1.0 | 9,115-9,857 | 118,284 | 118,284 |
| Deputy Director | 0.9 | 1.0 | 1.0 | 7,647-8,432 | 101,184 | 101,184 |
| Exec Asst | 1.0 | 1.0 | 1.0 | 3,072-3,734 | 44,808 | 44,808 |

### Production:

| Housing Finance Chief | 1.0 | 1.0 | 1.0 | 6,964-7,678 | 92,136 | 92,136 |
| Housing Finance Ofcr  | 4.0 | 4.0 | 5.0 | 5,713-6,906 | 331,488 | 414,360 |
| Housing Finance Spec  | 6.0 | 6.0 | 7.0 | 4,516-5,489 | 395,208 | 461,076 |
| Housing Finance Assoc | 5.0 | 9.0 | 7.0 | 4,111-4,997 | 539,676 | 411,748 |
| Housing Finance Asst  | 13.3 | 12.0 | 14.0 | 3,418-4,155 | 598,320 | 698,040 |
| Housing Finance Trainee | 0.8 | 1.0 | 1.0 | 2,850-3,465 | 41,580 | 41,580 |
| Mgt Services Techn    | 0.6 | 0.0 | 0.0 | 2,632-3,201 | 0 | 0 |

### Support Staff-Sacramento:

| Office Techno-Typing | 0.0 | 1.0 | 1.0 | 2,510-3,050 | 36,600 | 36,600 |
| Office Asst-Typing   | 1.6 | 3.0 | 3.0 | 2,172-2,641 | 95,076 | 95,076 |

### Special Lending:

| Housing Finance Chief | 0.0 | 1.0 | 0.0 | 6,964-7,678 | 92,136 | 0 |
| Housing Finance Ofcr  | 1.0 | 1.0 | 2.0 | 5,713-6,906 | 82,872 | 165,744 |
| Housing Finance Spec  | 3.0 | 3.0 | 2.0 | 4,516-5,489 | 197,504 | 131,736 |
| Housing Finance Assoc | 1.2 | 1.0 | 3.0 | 4,111-4,997 | 59,964 | 179,892 |
| Housing Finance Asst  | 4.0 | 5.0 | 2.0 | 3,418-4,155 | 249,300 | 99,720 |
| Mgt Services Techn    | 0.0 | 0.0 | 2.0 | 2,632-3,201 | 0 | 76,824 |
| Office Techno-Typing  | 1.0 | 1.0 | 1.0 | 2,510-3,050 | 36,600 | 36,600 |
| Office Asst-Typing    | 0.0 | 1.0 | 0.0 | 2,172-2,641 | 31,692 | 0 |

### Totals, Homeownership Programs

| Total Services: | 45.4 | 53.0 | 54.0 | $2,600,509 | $3,144,528 | $3,213,408 |
### Insurance Program

**CA Housing Loan Insurance Fund**

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**Totals, Insurance Program**

<table>
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### Multifamily Programs

**Lending:**

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<tr>
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<td>2.0</td>
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<td>164,272</td>
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<tr>
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<td>7.4</td>
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<tr>
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**Support Staff:**

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<th>1.0</th>
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**Special Lending:**

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<td>74,232</td>
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<td>1.0</td>
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<td>1.0</td>
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<td>41,580</td>
<td>41,580</td>
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**Totals, Multifamily Programs**

<table>
<thead>
<tr>
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<th>39.3</th>
<th>36.0</th>
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<th>$2,747,056</th>
<th>$2,523,528</th>
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### Asset Management

**Asset Management:**

<table>
<thead>
<tr>
<th>Role</th>
<th>Time Allocated</th>
<th>Hours</th>
<th>Overage</th>
<th>Actual</th>
<th>Overage</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.E.A III</td>
<td>0.2</td>
<td>1.0</td>
<td>1.0</td>
<td>8,630-8,854</td>
<td>106,248</td>
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<tr>
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<td>0.8</td>
<td>1.0</td>
<td>1.0</td>
<td>6,964-7,578</td>
<td>92,136</td>
</tr>
<tr>
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<td>1.0</td>
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**Asset Management-North:**

<table>
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<tr>
<th>Role</th>
<th>Time Allocated</th>
<th>Hours</th>
<th>Overage</th>
<th>Actual</th>
<th>Overage</th>
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</thead>
<tbody>
<tr>
<td>Housing Finance Ofcr</td>
<td>1.0</td>
<td>2.0</td>
<td>3.0</td>
<td>5,713-6,906</td>
<td>165,744</td>
</tr>
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<td>3.0</td>
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<td>41,580</td>
</tr>
<tr>
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<td>1.0</td>
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<td>38,412</td>
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</table>

**Support Staff-North:**

<table>
<thead>
<tr>
<th>Role</th>
<th>Time Allocated</th>
<th>Hours</th>
<th>Overage</th>
<th>Actual</th>
<th>Overage</th>
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</thead>
<tbody>
<tr>
<td>Office Techn-Typing</td>
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<td>1.0</td>
<td>2,510-3,050</td>
<td>36,600</td>
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<tr>
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**Asset Management-South:**

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<th>Overage</th>
<th>Actual</th>
<th>Overage</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Housing Finance Ofcr</td>
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<td>2.0</td>
<td>1.0</td>
<td>5,713-6,906</td>
<td>165,744</td>
</tr>
<tr>
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<tr>
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<td>1.0</td>
<td>2,850-3,465</td>
<td>0</td>
</tr>
<tr>
<td>Mgmt Services Techn</td>
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<td>1.0</td>
<td>1.0</td>
<td>2,632-3,201</td>
<td>38,412</td>
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**Support Staff-South:**

<table>
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<tr>
<th>Role</th>
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<th>Hours</th>
<th>Overage</th>
<th>Actual</th>
<th>Overage</th>
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</thead>
<tbody>
<tr>
<td>Office Techn-Typing</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
<td>2,510-3,050</td>
<td>36,600</td>
</tr>
<tr>
<td>Office Assst-Typing</td>
<td>0.0</td>
<td>1.0</td>
<td>1.0</td>
<td>2,172-2,641</td>
<td>31,692</td>
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**Totals, Asset Management:**

<table>
<thead>
<tr>
<th></th>
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<th>Hours</th>
<th>Overage</th>
<th>Actual</th>
<th>Overage</th>
</tr>
</thead>
<tbody>
<tr>
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**Totals, Lending Programs:**

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### TOTALS, AUTHORIZED POSITIONS

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<th>Overage</th>
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**Regular/Ongoing Positions**

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<th>Overage</th>
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<th>Overage</th>
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**Overtime**

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<th>Overage</th>
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CALIFORNIA HOUSING FINANCE AGENCY  
ACTUAL AND PROJECTED REVENUES AND EXPENSES  
OPERATING ACCOUNT  
(In millions)  

<table>
<thead>
<tr>
<th></th>
<th>2004/05 (Actual)</th>
<th>2005/2006 (Budgeted)</th>
<th>2006/2007 (Projected)</th>
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<td><strong>HOUSING REVENUES</strong></td>
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<td>Administrative Fees:</td>
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<td>Single Family/Second Programs</td>
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<tr>
<td>HUD/Multifamily</td>
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<td>Operating Transfer</td>
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<td>29.0</td>
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<td>Total Housing Revenues</td>
<td>$31.9</td>
<td>$34.9</td>
<td>$35.9</td>
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<td><strong>INSURANCE REVENUES</strong></td>
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<td>Reimbursements</td>
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<td><strong>HOUSING AND INSURANCE</strong></td>
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<td></td>
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<tr>
<td>Total Operating Revenues</td>
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<td>$36.6</td>
<td>$37.5</td>
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<td><strong>EXPENSES</strong></td>
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<td>Insurance - Operating Budget</td>
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<td>1.7</td>
<td>1.6</td>
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<td>Total Operating Expenses</td>
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<td>$36.6</td>
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<td>Non-Operating Expenses</td>
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<td><strong>Ending Balance</strong></td>
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<td>$32.8</td>
<td>$33.5</td>
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RESOLUTION 06-14

CALHFA OPERATING BUDGET

FISCAL YEAR 2006/2007

WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2006/2007 fiscal year;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The operating budget attached hereto is hereby approved for operations of the California Housing Finance Agency Fund for fiscal year 2006/2007.

I hereby certify that this is a true and correct copy of Resolution 06-14 adopted at a duly constituted meeting of the Board of the Agency held on May 11, 2006, at Burbank, California.

ATTEST: ________________________
Secretary

Attachment
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS
PUBLIC MEETING

Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Thursday, March 9, 2006
9:32 a.m. to 12:32 p.m.

Reported By: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
8414 Yermo Way, Sacramento, California 95828
(916) 682-9482 Fax (916) 688-0723
FeldhausDepo@aol.com
Board of Directors Meeting held on March 9, 2006

APPEARANCES

Board of Directors Present

JACK SHINE
(Acting Board Chair)
Chairman
American Beauty Development Co.

CURT AUGUSTINE
for Sunne Wright McPeak
Secretary
Business, Transportation and Housing Agency
State of California

JAN BOEL
for Sean Walsh
Director
Office of Planning and Research
State of California

CAROL GALANTE
President
BRIDGE Housing Corporation

JOHN G. MORRIS
President
John Morris, Inc.

JUDY NEVIS
Acting Director
Department of Housing and Community Development
State of California

THERESA A. PARKER
Executive Director
California Housing Finance Agency
State of California

WILLIAM J. PAVAO
for Phillip Angelides
State Treasurer
State of California

--o0o--

Daniel P. Feldhaus, CSR, Inc. (916) 682-9482
Board of Directors Meeting held on March 9, 2006

APPEARANCES
Continued

CalHFA Legal Staff Present:

THOMAS C. HUGHES
General Counsel

JOJO OJIMA

--oOo--

For the Staff of the Agency:

GREG CARTER
Interim Director
Mortgage Insurance

BEVERLY FRETZ-BROWN
Interim Director
MultiFamily Programs

Evan gerberding
Assistant Director
Marketing

KENNETH GIEBEL
Director
Marketing

BRUCE GILBERTSON
Comptroller

EDWIN C. GIPSON II
Chief, Multifamily Lending
and
Director, Culver City office

MICHAEL HOWLAND
Director
Information Technology

TINA ILVONEN
MultiFamily Programs
APPARENCES
Continued

For the Staff of the Agency:

JIM LISKA
MultiFamily Programs

CHRIS PENNY
Asset Management

KATHY WERE MIUK
Multifamily Loan Officer

LAURA WHITTALL-SCHERFEE
Chief of Lending
MultiFamily Programs

GENE SLATER
Asset Management

GERALD SMART
Chief
Homeownership Programs

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Also Present

STANLEY J. DIRKS
Orrick Herrington & Sutcliffe, LLP

GABE GARRETT
Bank of America

MORGAN T. JONES III
McDonough, Holland & Allen, PC

GABRIEL D. SPEYER
Vice President
Community Development Lending
Bank of America

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Board of Directors Meeting held on March 9, 2006

BE IT REMEMBERED that on Thursday March 9, 2006, commencing at the hour of 9:32 a.m., at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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(The following proceedings commenced with Jan Boel absent from the hearing room.)

ACTING CHAIR SHINE: Well, it's time.

Good morning. I would like to call the meeting to order. My name is Jack Shine. I am a fill-in. Our chairman had some business matters which made it impossible for him to be here this morning, and he asked me if I would fill in at this session, which I am doing here. So there you have it.

--o0o--

Item 1. Roll Call

ACTING CHAIR SHINE: Do we want to do a roll call first?

MS. OJIMA: Yes. Thank you.

Mr. Pavao for Mr. Angelides?

MR. PAVAO: Bill Pavao for Treasurer Angelides.

MS. OJIMA: Thank you.

Mr. Carey?

(No audible response)
MS. OJIMA: Mr. Czuker?

(No audible response)

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Here.

MS. OJIMA: Thank you.

Ms. Galante?

MS. GALANTE: Here.

MS. OJIMA: Mr. Augustine for Ms. McPeak?

MR. AUGUSTINE: Here.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Here.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Here.

MS. OJIMA: Mr. Courson?

(No audible response).

MS. OJIMA: Mr. Walsh?

(No audible response)

MS. OJIMA: Mr. Genest?

(No audible response)

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIR SHINE: By the skin of our teeth.

MS. OJIMA: By the skin of our teeth, correct.
Item 2. Approval of the minutes of January 12, 2006,

Board of Directors Meeting

ACTING CHAIR SHINE: Okay, we have minutes of the January 12th meeting.

I will entertain a motion for approval and any comments?

MR. MORRIS: So moved.

MS. NEVIS: Second.

ACTING CHAIR SHINE: Any comments from anybody?

(No audible response)

ACTING CHAIR SHINE: If not, all in favor?

(A chorus of "ayes" was heard.)

ACTING CHAIR SHINE: Then I'll go ahead and call the roll, which -- now, do you see what happens to an interim?

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Having not been at the meeting, I was inclined to abstain.

Do you need a vote for the quorum? Then I vote "aye."

MS. PARKER: Well, the only thing we could do is move it over to the next board meeting. But we need six votes.

MR. PAVAO: Then I vote "aye."

MS. OJIMA: Thank you, Mr. Pavao.
Ms. Nevis?

MS. NEVIS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: The minutes have been approved.

--o0o--

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

ACTING CHAIR SHINE: Okay, in that case, I would like to make comments. It says "Chairman and Executive Director." But as acting chairman, I have no comments to make. So, therefore, I will not make any.

But I'll turn it over to Terri, who I know has some things that you want to hear.

MS. PARKER: Thank you, Mr. Chairman.

And my grateful thanks to all the Board members who are here today.

If you were not here, we would have a serious problem of being able to do the business of the organization and meet our commitment to our borrowers.
I have a couple of announcements to make. Certainly, I wanted to introduce Bill Pavao, who has taken Laurie Weir's place in representing the Treasurer. Bill has been known, I think, to many of us at CalHFA because of his long tenure in the Department of Housing and Community Development, where most recently he ran the Multifamily Housing Program. So we welcome Bill.

And we know you'll do a fine job, representing the Treasurer.

The other introduction that I want to make is, as you all know, I have chatted with you about some of the great loss to the Agency of our longtime staff. And with the retirement of Dick LaVergne, the retirement of Nancy Abreu, we have had challenges of filling our director of Homeownership and with changes in the Multifamily area. So at least the first of those four positions we've made some progress on, and paperwork is in to the Governor's office to appoint Steve Spears. Steve, if you would stand up, so you all know him.

Steve has an outstanding background to bring to the Housing and Finance Agency. He not only has an MBA in business and a CPA, but he also has a law degree. He was deputy treasurer for Matt Fong, and did the municipal finance side of the Treasurer's office. He's
well-known and respected on Wall Street, and has done consulting in the financial area for the last several years.

So we are very fortunate to have him. We're teaching him how to be a "houser." But other than that, he has a tremendous background to bring to the Agency. So we're fortunate to have him; and you'll be hearing more from him over the next months, if he is with the Agency. And if I'm not available, Steve is the next person for you all to contact.

John asked me, when he said he couldn't attend this meeting, to do one thing, and that is to make an announcement for him. At the last meeting, he talked about his desire to form an audit committee. And in doing so, he has talked to a couple of the Board members to ask them to participate on that audit committee. And he has asked Jack Shine to chair the committee. He has asked Carol Galante and Peter Carey to be members on the committee on a rotational basis, so that we always, you know, are not in a situation where we have all three members coming on and off at the same time.

So Jack's appointment is for one year, Carol's is for two years, and Peter's is for three years.

Since Jack has a dubious distinction of being
the first chair of the audit committee, he will be
working with Tom Hughes, our general counsel, and Dennis
Meidinger, our controller, in developing an audit
committee plan -- a charter -- and will be coming back to
the Board members and talking a little bit about the
activities that they are going to be doing. So I just
wanted to give you kind of a heads-up on that.

We have a very good meeting to talk with you
about. A couple of deals for us to be doing. We're
going to be doing a report on the Bay Area Housing Plan.

A big part of our meeting is to talk with you about
concepts for our business plan, which we'll be bringing
back to you to adopt next May. But I think this is going
to be a crucial time for the way we are going to be
talking to you about the business plan of how we best
want to use our resources, how best we want to
essentially move the mission of the organization, and
also whether or not we will have the resources to do so.

As a little special treat, our Marketing folks
have done some PSAs on the Agency. So before, as an
introduction to our business plan, we're going to give
you a little bit of -- a couple 30-second PSAs about the
organization and the mission that we're doing.

And then last, but not least, we'll have a small
closed session to talk with you about some court
litigation that we're involved in.

So we appreciate you being here, and we appreciate your time and attention to the matters before you today.

With that, Mr. Chairman, that concludes my report.

ACTING CHAIR SHINE: Thank you.

---o0o---

Item 4. Discussion, recommendation and possible action relative to final loan commitments for three projects:

Resolution 06-09 (Indio Gardens Apartments)

ACTING CHAIR SHINE: I'd like to just then go into the three projects that we have before us today, the first of which is Indio Gardens Apartments.

MS. FRETZ-BROWN: Thank you, Chairman Shine.

I'm Beverly Fretz-Brown, interim director of the Multifamily Housing Programs, CalHFA.

Our first loan commitment request is Indio Gardens. It's a portfolio loan for the purpose of acquisition and rehab.

Laura Whittall-Scherfee, the chief of lending, will be directing the remarks on this program.

Thank you.

MS. WHITTALL-SCHERFEE: Good morning.
This is a final commitment request for Indio Gardens Apartments. Indio Gardens Apartments is an Agency portfolio loan. It's a 151-unit family project. It's located in Indio, which is in Riverside County. The project was constructed in 1981. It is 100 percent Section 8. It has 100 percent Section 8 subsidy right now, and the renewals expired in 2002.

The request is for an acquisition rehabilitation loan, a Section 8 second mortgage, and then permanent loan financing.

The acquisition rehab loan is in the amount of $4,400,000, at a variable interest rate for 24 months; and the financing is tax-exempt.

The second mortgage, which will go into place at the same time as the acquisition rehabilitation loan, is for 4,800,000. It's comprised of $1,090,000 of earned surplus, and 3,710,000 of tax-exempt financing. It's for 16 years, which is the remaining term of the half, with the extensions.

The permanent loan is in the same amount as the acquisition loan. It's for $4,400,000, at 5.45 percent for 30 years.

There are no other sources of financing.

And with this, Jim Liska is going to explain the project in a little bit more detail.
This is very, very similar in structure to what you saw with Palm Springs Senior, at the last Board meeting. The ownership of the property is going to include Bental, and the actual name of the ownership entity is going to be "Indio Gardens Affordable LP."

Go ahead, Jim.

MR. LISKA: The project is Indio Gardens, located in Indio.

This is a close-up of the aerial. And it's a three-story elevator, two buildings: Building A and Building B.

Right here is the community room. And off to the right here is the office center. The community room will see some rehab, as far as updating.

The project was built in 1981. And overall, it's in our portfolio, and it is in pretty good condition; but we will be doing approximately 1.9 million dollars' worth of rehab. We're at 12,000-plus per unit.

The roofs are -- basically, they're a foam covering and reflective to help us with the sun, since it gets warm, as you know, down there during the summer months.

We understand the warranty is good through approximately 2012 on these roofs.
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Back here, this is a senior project. We have a nice little garden plot where individual tenants can grow various flowers, vegetables, fruits, what have you.

On the back side are apartments. To the right are apartments. Across the street are, again, apartments.

It is gated with security gates and automatic openers.

I think this is one of the better projects I have seen as far as with ADA compliance, since we do have a lot of seniors, a lot of handicapped here.

Off to the left is a seven-acre date farm; and adjacent to that is open land.

This gives you a little bit wider aerial on it. We're looking west, down the street.

At the corner of Monroe and our street is a bus stop. About a quarter mile away in this direction (pointing), just past Highway 101 in Monroe, we have a little shopping center, as far as Rite Aid for drugs, Food 4 Less for our grocery, and approximately a mile away is the hospital.

So all in all, there, the service are all within about a half a mile distance of the project.

This is a view of the subject from Requa Avenue.

Just looking east on Requa.
Looking west on Requa.

This is an interior view of the grounds, property. The landscaping is very nicely done, well-maintained, well kept up. And we have a little bit of rehab to do, some ongoing work there.

A typical kitchen.

As far as interior unit amenities, we are going to be seeing new cabinets, new appliances. Flooring for both the bathrooms, carpeting, paint.

This is a typical unit interior.

We can digress a little bit on this one.

Again, those that were here in January for Palm Springs, we have our Section 8 exceeding the market rate. It's 862 versus 725.

Again, we have a 16-year half contract remaining. And in the cash flow for the first six years, two years' worth of rehab plus the first four years of amortizing, we have flatlined it. We have not trended those rents until -- for the Section 8 -- until such time as the market catches up with the Section 8, then we are permitted to go back to HUD to get our annual increases.

With that, I'm open for questions.

ACTING CHAIR SHINE: Questions from anybody?

MS. GALANTE: I have one.

I wasn't at the last meeting, so I didn't --
you're referring to a structure on a previous deal, and I apologize. But is this project being acquired from an existing?

MR. LISKA: This project is being acquired from --

MS. GALANTE: This is not a refinancing?

MR. LISKA: No, it's not a refinancing. This is an actual sale. And the current owner is selling it.

As part of that sale, since it is in our portfolio, this property, based on yield maintenance, the seller of the property will be paying a 1.6-some-odd million dollars prepayment penalty to us.

MS. GALANTE: So is that the earned surplus?

What's the earned surplus?

MR. LISKA: The earned surplus is from our own funds, and it's to supplement and use, since this is a pre-80 project, the project can have surplus funds, in addition to our own tax-exempt financing.

ACTING CHAIR SHINE: I have just a question here.

In computing the first and the second, when you add them together, it's $90.2 million.

MR. LISKA: That's correct.

ACTING CHAIR SHINE: So that's like an 80 percent loan based on value after completion; right?
MR. LISKA: That's correct.

ACTING CHAIR SHINE: I just wanted to make sure it's still there.

MR. LISKA: Yes, it's still there.

Again, the tax-exempt is a little bit less, 8.1 million. And then the $7,090,000 is the HAT earned surplus money, our own Agency's funds. And we have it at 5.45 percent interest rate for 16 years.

ACTING CHAIR SHINE: Okay, any further comments? Questions?

MR. MORRIS: If I can make one comment.

I think it's a great project. I mean, this area is one of the fastest growing cities in the state, and housing prices have increased dramatically in the last several years, just like other parts of the state. So this is good. This is a good project.

MR. LISKA: You see the signs going down the freeway at the site. You're looking at three to five hundred thousand-dollar homes.

MR. MORRIS: Right.

MR. LISKA: Your observation is right.

ACTING CHAIR SHINE: Okay, all right. Do we hear a motion?

MR. HUGHES: Mr. Chair, just to remind you, before the Board votes on anything, we do have to make
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sure we've solicited any input or comments from the public.

ACTING CHAIR SHINE: Oh.

Comments from the public?

(No audible response)

ACTING CHAIR SHINE: Hearing none, I'd entertain a motion.

MR. MORRIS: I move.

MR. PAVAO: Second.

ACTING CHAIR SHINE: Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Aye.

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: Resolution 06-09 has been approved.

//

Daniel P. Feldhaus, CSR, Inc. (916) 682-9482
Item 4. Discussion, recommendation and possible action relative to final loan commitments for three projects. (continued)

Resolution 06-10 (Seven Directions)

ACTING CHAIR SHINE: Okay, our next project is Seven Directions in Oakland, Alameda.

Are you ready?

MS. FRETZ-BROWN: Thank you, Mr. Chairman.

Laura will also give the comments on the Seven Directions project.

Thank you.

MS. WHITTALL-SCHERFEE: We are having to lean forward into this mike because this is as far as it's going to go. So if we look like we're practically trying to lean over the table, that is why.

Tina Ilvonen is going to help me with Seven Directions. You did receive very late, and I apologize, a substitute page. That substitute page includes the information on the appraisal that we received after this was published, but we wanted you to be aware of what the appraisal was. We are still reviewing parts of the appraisal, but the loan to values are something that we felt that the Board needed to have.

Seven Directions is -- we're requesting permanent and construction loan financing on Seven
Board of Directors Meeting held on March 9, 2006

Directions. It is a 36-unit infill project with a 20,000 square-foot community-based health care facility in Oakland, which is in Alameda County.

The project will be owned by Seven Directions Housing Limited Partnership, and will include EBA/LDC, which is East Bay Asian Local Development Corporation, and the Native American Health Center, Inc. The Native American Health Center, Inc., will be owning and managing the health centers that are part of the project. And we have a long history with the EBA/LDC. I think this board probably remembers a couple of projects, Coliseum I was a recent project we brought to this board, as was Coliseum II and III.

The construction loan that is being requested today is in the amount of $8,750,000, at a variable rate for 18 months with tax-exempt money.

The permanent loan will be for $1,600,000 at 53 percent for ten years. This project is going to have 18 project-based Section 8 vouchers provided by the Oakland Housing Authority. And as you saw, we have a large construction loan and a small permanent loan. The reason being, there are a multitude of other sources on this particular project.

There's money from the Redevelopment Agency of the City of Oakland in the amount of $3,289,000 for
55 years at 3 percent, residual receipts. The City of Oakland has two loans, one in the amount of $1,216,000 for 55 years at 3 percent, residual receipts, and then a deferred interest loan in the amount of $93,972 for 55 years.

The Department of Housing and Community Development and the Multifamily Program is for $2,606,331 for 55 years at 3 percent, residual receipts, as well as an SSS loan from MHP, the non-residential space for supportive services, in the amount of $250,399 for 55 years, at 3 percent.

There's also an AHP loan in the amount of $227,368 for 55 years.

And with that, Tina will take you through the project.

MS. ILVONEN: Good morning.

Seven Directions will be located in the Fruitvale neighborhood of Oakland, two miles south of downtown Oakland in Lake Merritt, which is up here, and a quarter mile north of the Fruitvale BART station, which is about four blocks south of this side.

This is a close-up of the neighborhood around the project.

This is the new Cesar Chavez Educational Center, which actually continues another three or four blocks.
north. And this is the Goodwill retail facility.

This is another charter school.

This building here is the Fruitvale Medical Center; and this building here, on the corner of 29th, is a grocery store.

This is a closer-up view of the surrounding area next to the project.

This is a furniture store right next to the project.

On the corner of Twenty-Ninth and International, this is a restaurant.

This is a 16-unit apartment complex abutting the project.

This building back here is the historic Cohen-Bray House, which was built in the 1870s.

Next door here is an IHOP, which is vacant currently.

And this is a close-up of the site, looking southeast from International Boulevard.

This is a half-acre site. It's been vacant since 1976. It was formerly the location of a retail and furniture warehouse building. There was a Phase I and Phase II completed on the project in 2002.

In the Phase I, they had a concern about neighboring properties possibly contaminating our site.
with possible leaks from those properties.

There was a Phase II completed, and subsurface sampling was done. Low concentrations of diesel were found, but they were below regulatory levels and they were not required to be removed.

These reports have both been reviewed by our environmental consultant, URS; and they do not have any further recommendations for further investigation. There will, however, be a Phase I update before we close the construction loan.

This is just a close-up of the Cohen-Bray House behind the project. It was built in the 1870s. It's on the Historic National Register.

Okay, this is a site plan of the project. As you see, the building envelope is taking up almost the entire site, except for the very back, where there will be some trees planted. This will be a five-story building, which will include 36 units and the 20,000 square-foot community-based health care facility.

The health care facility and the residential units will be divided into two separate legal descriptions. CalHFA's security will be on the housing parcel only.

Okay, this slide shows the two very different facades on this project.
The south facade along International Boulevard is a commercial facade, showing the five stories of the project.

In the rear, the project steps down to two stories, and it's a residential facade, in keeping with the character of the residential neighborhood on Twenty-Ninth Avenue.

And I wanted to show the floor plans in the slide presentation to show the separation between the health center and the residential units.

These areas here are the parking garage. There will be an entrance here, which will be open during the day when the health center is open. There are nine parking spaces here for the health center.

There's a gate here, so the residents can have their own gated, secured parking area. There's 31 parking spaces here, and the units -- I'm sorry, there's an elevator here. Then there's a separate residential lobby with mailboxes and an elevator.

This is the first floor of the health center, which will house outpatient mental health services, as well as conference rooms, offices, and a community garden for gathering.

This is the second floor. On this floor, there are three residential units, as well as the community
room for the residential, which will have social services
coordination, job training, and a commuter room.

There's also the primary-care medical facility
and comprehensive dental on this floor. The elevator for
the health center stops on the second floor, and that's
the last stop for that elevator, whereas the residential
elevator goes all the way up to the fifth floor.

The third floor has more units, as well as a
community garden and play area for the children, a
contemplative garden for adults. And that's in that
location, because the Cohen-Bray House wanted quiet
neighbors. They're located over here (pointing).

This floor also has the manager's unit, the
manager's office, laundry room.

And the fourth floor has more units. The units
in this project are studios, one-, two-, three-, and
four-bedrooms. As you can see, the project is starting
to step back here.

And the fifth floor is only about a third of the
floor, with the remainder of the units.

Okay, this slide shows the project units and
the market rate rents. Project rents range from 30 to
60 percent of market-rate rents -- I'm sorry, 30 to
60 percent of area median income. The market rents shown
on this slide are from the market study, which was
completed in January. Since the Board package went out, we have received the appraisal. And we are relying on the market rents from the appraisal versus the market study, because the appraisal surveyed market apartments in a tighter area around the project than the market study did.

The market rents from the appraisal are 725 for the studio units, 925 for the one-bedrooms, 1,250 for the two-bedrooms, 1,500 for the three-bedrooms, and 1,700 for the four-bedrooms.

Lastly, I just wanted to talk about the Section 8. Normally, when there is a Section 8 contract with CalHFA projects, you'll see a 30-year first mortgage and then a ten-year second mortgage based on the Section 8 increment rents. On this project, we are requesting approval for, with just one ten-year loan because the loan size is just $1.6 million that they're requesting. So we are relying on Section 8 rents to repay the first mortgage.

On this project, we have a commitment from the Oakland Housing Authority for 18 project-based vouchers for a ten-year term. We will require that the agreement to enter into the Housing Assistance Payment contract be signed before the construction loan closes and the HAP contract will be signed before the permanent loan closes.
The underwriting rents that I used on this project are lower than the contract rents that I've received from the Housing Authority, just because I wanted to be conservative on this.

Actually, the contract rents are 1,285 for the two-bedrooms, 1,650 for the three-bedrooms. The underwriting rents I used were 1,200 and 1,650.

I also did not trend the Section 8 income up at all, so it's flat over the whole ten-year term.

And lastly, there's a $61,800 transitional reserve in the event the Section 8 rents go down at all during the ten-year term. We have that available.

The last thing I wanted to discuss was the high cost per unit on this project. It's $418,000 per unit. There are several reasons for that. This is an urban infill site, so the number of units they were able to construct and spread their costs over was fixed over 36 units.

Secondly, the rear of the project abuts that historic Cohen-Bray House. As a result, the building envelope was forced to step down at the rear of the site from five stories, to three stories, and then two stories, as you saw on the floor plans.

Third, in order to satisfy abutter concerns and the local planning board, the building is designed with a
commercial facade on the front and a residential facade on the rear, which costs more to construct.

Finally, the lower floors of the project will house the Native American Health Center, a full-service health center. And the use of this space by the health center requires additional concrete and waterproofing of the slab between the residential and clinic portions of the building.

MS. WHITTALL-SCHERFEE: And with that, we'd be happy to answer any questions. And we're requesting approval of Seven Directions.

ACTING CHAIR SHINE: The security for the first trust deed in the amount of $1.6 million will be the residential portion of this project.

Is there going to be a recorded air space map or some means by which you can get title insurance to ensure that you have something to foreclose on, if you have to?

MS. ILVONEN: Yes.

MS. WHITTALL-SCHERFEE: I don't know.

MS. ILVONEN: Yes.

ACTING CHAIR SHINE: So those different-colored areas were overall air spaces.

Are the individual units of the residential site also air-spaced by unit, or is it air spaced just by the envelope?
MS. ILVONEN: No. There will be two parcels: A residential parcel, which will include a portion of the land, as well as the portions of the building that are residential-related, and a commercial parcel, which will include a portion of the land and the commercial portions of the building.

MS. WHITTALL-SCHERFEE: And our financing is only on the residential portion of the building. The financing for the health center is from another source.

ACTING CHAIR SHINE: So the source of my question was, that being the case, can we -- are we comfortable that we can carve out the security for the note and deed of trust that we have?

MS. ILVONEN: Yes.

ACTING CHAIR SHINE: So that if you have to foreclose, you have something to foreclosure on that would --

MS. ILVONEN: We've actually been in discussions with Nicole Slaton from CalHFA, and Tom --

MS. WHITTALL-SCHERFEE: She's in our legal department.

MS. ILVONEN: -- in our Legal Department, Tom, and the borrower's attorney about exactly how this would be finalized.

They're working on the tentative map right now.
We will have the final map before we record the
construction loan.
        And we're also working on an inter-creditor
agreement.

    ACTING CHAIR SHINE: So there will be an air
space map on record before we fund?
    MS. WHITTALL-SCHERFEE: Yes.
    ACTING CHAIR SHINE: Any other questions from
the Board?
    MS. GALANTE: I'm very familiar with the area.
We actually are working on a project nearby. And I think
this is a great addition to the neighborhood and a lot of
interest in Oakland in revitalizing this particular
neighborhood, and EBALDC is a great sponsor. So I am
very supportive of the project.

    I do have two questions. You say there's
18 project-based Section 8. And I am just trying to
understand that chart that was up there with the market
rate rents and the appraisal rents.

    Is the CalHFA mortgage purely secured by the
Section 8 rents, or are we also relying on achieving --
and I'll just state my concern, which is I think these
60-percent rents, there's five or six of them, are at
or above market for the neighborhood. And, you know,
I didn't quite catch all your appraisal rents versus --
the market-study rents clearly are off-base, there's no doubt about that. And I didn't quite catch all the appraisal rents. But these still seem fairly aggressive to me.

MS. ILVONEN: The project rents -- I forgot to mention that one. I did go over that slide.

MS. GALANTE: So these may be covered by Section 8. I'm just not clear on how that's working.

MS. ILVONEN: The project rents did not include the Section 8 rents. They just included the 30 to 60 percent rents that are being charged to the tenants.

The Section 8 rents are 1,250 for the two-bedrooms and 1,450 for the three-bedrooms, and that was not on the chart. The cash flow relevance on both the rents from the 30 to 60 percent AMI units, as well as the Section 8 increment. And the project rents are between 40 and 89 percent of the appraised market rents.

Did that answer your question?

MS. GALANTE: Yes.

MS. ILVONEN: Yes.

MS. GALANTE: We're relying on these rents.

So let me ask another question then. It looked like there's a really high hard-cost contingency, soft-cost contingency. And I assume the project hasn't been bid yet, and trying to be conservative about pricing
going up.

If there is savings, if we don't -- if they don't use all that contingency, can some of that be used to lower some of those 60-percent rents?

MS. ILVONEN: Well, actually, okay, there's a couple things. One, at the time this Board package was sent out, we didn't have bids from the investor, either. And the investor bids have come in higher than were shown on this board write-up. So I am expecting that the permanent loan will probably go down.

I don't know what an EBALDC will do with the 60 percent rents. We haven't talked about that at all. But I expect that CalHFA's final loan on this will be lower than 1.6 million.

Also, you're correct, the project has not been bid out yet. Although the design is further along than a lot of other projects that I've taken to board, so it is -- it's further along.

And the contractor has been selected and has looked at the plans. So the numbers in the Board presentation are hopefully pretty close to what the final bids are going to be coming in at.

There is a large contingency just because they're not final bids. So we wanted to have some room in there.
MS. GALANTE: Okay, I'm very supportive of it. I just had a little note of caution about those 60 percent rents. And I would encourage you all in conversation with the sponsor to think about, you know, if things get better, to think about trying to lower those closer to 50 or 55 percent.

MS. PARKER: Yes, we'll take that back to our sponsor and essentially see if that is -- if there is some ability, when all the numbers come in, to see if there's the ability to do something on the rent, reducing the rent.

This is a great sponsor.

MS. GALANTE: Yes, I agree. I agree.

ACTING CHAIR SHINE: Comments from the Board?

(No audible response)

ACTING CHAIR SHINE: From the public?

(No audible response)

ACTING CHAIR SHINE: A motion?

MR. MORRIS: So moved.

MR. PAVAO: Second.

ACTING CHAIR SHINE: Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Aye.

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Aye.
MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: Resolution 06-10 has been approved.

Item 4. Discussion, recommendation and possible action relative to final loan commitments for three projects. (continued)

Resolution 06-11 (Villa Vasconcellos)

ACTING CHAIR SHINE: Okay, we have a third project in front of us today, 70 units in Walnut Creek.

MS. FRETZ-BROWN: Yes, sir. The third project is Villa Vasconcellos in Walnut Creek; and Ed Gipson, chief of Multifamily Lending and also director of the Culver City office, will be presenting.

MR. GIPSON: This is a final commitment request for Villa Vasconcellos, a 70-unit new construction senior project located in the City of Walnut Creek in Contra Costa County. The sponsor is Resources for Community Development. The borrower will be Villa
Vasconcellos LP, a California limited partnership.

This is a special-needs project. Twenty-five of the 70 units will be for seniors who are homeless or have mental or physical disabilities. There is a construction loan in the amount of $11,435,000, and they are requesting a permanent mortgage of $121,518. A very small perm.

The construction will be tax-exempt. The permanent is expected to be Agency funds, most likely Housing Assistance Trust funds.

This project has received a large number of residual receipt financing. The City of Walnut Creek has provided CDBG funds, RDA funds in lieu of fee funds, if you will. Contra Costa County is providing HOME financing and HOPWA financing. In addition, it has AHP. HCD has provided MHP financing.

And with that, I'll let Kathy provide us additional details about the project.

MS. WEREMIUK: Good morning. I'm Kathy Weremiuk, and I'm pleased to be bringing this project to you.

Resources for Community Development is a sponsor we've worked with many times. They have an emphasis on providing service-enriched housing. In the Bay Area, they currently have 379 port of service units in
operation, and they have another 58 in construction.

The property is in Walnut Creek. It's 15 miles north of downtown Oakland. It's a bedroom community.

The project itself is on the junction of Geary Boulevard and Powell Avenue. It's adjacent to the I-680 freeway, about two blocks from it. And this is North Main Street. It's a major road that runs two miles to the south. It will go under -- back under the 680 and turn up in downtown Walnut Creek, which has tremendous facilities for rents in the residents in the town center.

It's close to the Pleasant Hill -- a third of a mile from the Pleasant Hill Town Center and BART station.

There is a bus stop on the corner of North Main and Geary, providing transportation for the seniors.

The general character of the neighborhood is very stable residential.

Adjacent to the property, there are some commercial uses. Across the street, there is a vacant commercial parcel that had been a food co-op at some point. It will be redeveloped, although I believe there's some environmental issues on it that will delay the redevelopment of that parcel.

There is a gas station and a fast-food outlet -- McDonald's or Burger King, I can't remember which -- on North Main. And then the main entry to the project is
off of Powell, and it will be through the residential portion of the neighborhood.

The project itself currently is -- and you'll see -- I was saying what it currently is. It's currently a vacant lot.

At the time this photo was taken, it was an abandoned Alzheimer's unit that was in the process of demolition. It has been abandoned for several years. And there are no relocation issues associated with the site.

The site had a clean Phase I. The building itself had some asbestos that was in the existing building.

We will require that all of that asbestos be abated appropriately and removed appropriately at the time that we take down the construction loan.

The only other issue that came up on the property was noise from the I-60 and also from Geary because it's a major arterial. And the remediation is some soundproofing of the walls and windows on the commercial-facing portions of the building. And that's been built into the building design -- the proposed design.

On the site itself -- and I'll show it later on the site plan -- this is Powell. The entry will be
through Powell. It will be a gated entry for security, although the neighborhood is very secure, and it doesn't necessarily require gating.

The site is, as you can see, irregular, and it's about a 1.4 acres.

This is a front view on it. There's some elevation issues. The site slopes in several directions. I'm sorry, the slide is kind of dark, but I'll just --

This is looking across. And it's, again, showing the elevation. This is the vacant parcel. This would be the roofline of the abandoned co-op across this street.

This is some of the commercial that's adjacent on Powell Street.

The architect is Van Meter Williams Pollack. We've worked with them before. They're terrific. They did the Fremont Oaks special-needs project for hearing-impaired seniors. I thought that project turned out to be more beautiful than any project that I have worked on in the years that I've been with the Agency.

This is the front of Geary. Although it is a street frontage, the main entrance for the residents will be from behind. And they've dealt with some of the elevation issues on the property. There's sloping -- they've dealt with some of the sloping in the front by
putting walkways in on the area of the project that abuts
the commercial -- North Main and commercial areas.

The building will be three-story. It will
step down to a two-story building as you get to the
residential, the area of the site that has residential
abutments.

The architect took some renderings and some
photos of a model they developed to show us some of the
detailing we anticipate seeing: awnings over cornered
windows, recessed windows, parapet, overhangs, nice
detailing in the stucco. It will be a stucco building
with some wood siding. And it has two interior
courtyards, a fairly attractive interior lobby.

This is the site plan for the building. It's
built around two interior courtyards for the senior
residents. Most of the units are off of double-loaded
corridors.

The residents will be entering through the
community section of the building here (pointing).
There's a very large community room and kitchen and a
very extensive supportive service base, five offices for
services and management.

Built into the project is a coordinator
position. Half of that position will be funded through
the operation of the project. The remainder will be
funded through fund-raising.

The service provider is Pittsburg Preschool Community Council. It sounds like a strange name for a senior project; but they, in fact, started as a preschool, expanded. And they're doing other senior supportive housing projects with RCD currently.

They have joined forces with the County Aging and Adult Services Group, the Health and Homeless Service programs, and a group called New Connections, so that they'll be providing, through those connections with other agencies, mental health services, medical case management, crisis management, and substance abuse assistance for the residents.

The services will be available to all 69 residents in the building. Not just for the 24 units that are getting supportive services, but the services will be more intense for the supportive services residents.

Because of the very, very small size of the permanent loan, we have been talking with HCD staff; and we think that it's more appropriate for HCD, who has a larger loan, to do most of the monitoring on this project. And so you'll see a scaled-back management plan for Villa Vasconcellos because we have only a $120,000 permanent loan. HCD would monitor placement reserves.
And also we'll follow their service plan recommendations and not add any additional recommendations from the Agency.

Because it's a senior building, there will be a longer lease-up period. There is a small reserve for rent-up.

The units -- 35 percent of the units will be the 20 and 35 percent units. Those will be for the residents that need supportive services. We anticipate those will lease up in two months.

There are 44 units that are 50 percent AMI. They're at $739. They're about 75 percent of market. And those units, there will be a longer lease-up period.

There are no subsidies for this project at this point in time, in part, because they're just not available in Contra Costa County right now. There may be some Shelter Plus Care available later on; and if there is Shelter Plus Care available later on, you may see a small increase in our permanent loan.

With that, I'll entertain any questions that you have.

Thank you.

ACTING CHAIR SHINE: From the Board, comments, questions, concerns?

(No audible response)
ACTING CHAIR SHINE: I have just two minor questions, and it had to do with mathematics. You know what I'm going to say.

MR. GIPSON: I'm guessing.

ACTING CHAIR SHINE: We have 500 85 square-foot units, and if you do the math, that adds up to 42,000; and yet we're building 60,000 feet. Is the common area 18,000 feet?

MS. WEREMIUK: There is an extensive common area in the building. But I'm not sure, and I'd have to go back.

ACTING CHAIR SHINE: So 30 percent of the project that we're building is common area?

If that sounds like the deal, that's the deal. I just wanted to know.

MS. WEREMIUK: They're double -- it may be the counting of the double-loaded corridors, and also we may have counted, when we did that, the two interior courtyards. And I think that's something that we would have to go back to the plans and do a second takeoff on it.

ACTING CHAIR SHINE: It doesn't change the project.

MS. WEREMIUK: Right.

ACTING CHAIR SHINE: I was just curious.
The only other comment that I have, or question, is under use of funds of new construction, you had a construction contract line item for 9.4 million. That's a duplicate of the other costs in there. Otherwise, it adds up kind of funny.

MS. WEREMIUK: Let me take a quick look at that.

MS. PARKER: It's at page 201, Kathy.

ACTING CHAIR SHINE: The seventh item down, it says --

MS. WEREMIUK: Oh, yes, it is a duplicate.

ACTING CHAIR SHINE: That's a non-add --

MS. WEREMIUK: It's a mistake. It's just a -- we take our -- it's just a total. We take a reserve off of that total cost, absent the utility and test inspections.

ACTING CHAIR SHINE: So your contract is going to be $9.4 million, even though the work may be less or more than the line items?

MS. WEREMIUK: Right.

ACTING CHAIR SHINE: That's fine.

Any other comments from the Board?

(No audible response)

ACTING CHAIR SHINE: From the public?

(No audible response)

MS. WEREMIUK: The project is pretty far along,
too, in terms of the numbers. These takeoffs were done at 60 percent completion.

Right now, they're going in for permits. I think they'll be filing permits next week. We do expect an upgrade and a new bid on 100 percent complete drawings. But the number is fairly good at this point in time.

ACTING CHAIR SHINE: Good.

If there's no --

MS. GALANTE: I just want to comment.

This is a fabulous location. And then all the resources they've been able to pull together is pretty impressive as well to take this on. So I think it's great.

ACTING CHAIR SHINE: Okay, there being no comments, do I hear a motion?

MS. GALANTE: I move.

ACTING CHAIR SHINE: Second?

MR. AUGUSTINE: Second.

ACTING CHAIR SHINE: Okay.

Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Aye.

MS. OJIMA: Ms. Nevis?

MS. NEVIS: Aye.
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MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Mr. Augustine?

MR. AUGUSTINE: Aye.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Aye.

MS. OJIMA: Mr. Shine?

ACTING CHAIR SHINE: Aye.

MS. OJIMA: Resolution 06-11 has been approved.

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Item 5. Update on Bay Area Housing Plan

ACTING CHAIR SHINE: Okay, that being the case, we now want to have a little discussion, an update on the Bay Area Housing Plan.

MS. PARKER: Edwin and Kathy are the primaries.

MR. GIPSON: We're going to provide an update to the Bay Area Housing Plan. We've discussed it many times, and we have been before the Board twice for approval now, up to $45 million, and rightfully so. We're providing you a progress update on where we are today and a few of the things that have happened and a few of the surprises along the way. Although those aren't great, they took longer than expected. And I think that's really what the key is. And I'll let Kathy go into further detail in explaining where we are and
what we expect to have.

But I'll just add, we do have a handout in front of you. The cover page says "BAHP Purchase Agreement Log." It's just a little handout. It does point out some of the projects that have been -- sites identified as some other things.

And with that, I'll let Kathy Weremiuk elaborate further.

MS. WEREMIUK: Hi. In January, when we came before the Board and asked you for an additional permanent loan commitment of up to 45 million and an additional preliminary commitment taking the total financing up to 120 million, we fully anticipated that we would be through the facilities closing at this point in time. We are not.

We brought that project to the Board so that the Agency wouldn't be the party that held back the ability of the master developer, DDS, and the regional centers to meet the Agnews closing deadlines of December 2007, which had been set by the Legislature.

The reason that it really did not happen is the incredible complexity of the project and of the closing process that we're going through. It's new ground. It's new ground for all of us.

The Agency -- through the Agency and with the
help of Morgan Jones from McDonough, Holland & Allen, have developed more than 30 new loan documents, some of them completely from scratch, that are out and being circulated for comments from Bank of America, the three regional centers, the three nonprofits, the master developer DDS, and the attorneys for the syndicate Bank of America has put together to participate in the project.

Some of the documents are almost at finalization; some are still waiting for comment. And that's only our set of documentation. B of A has its loan docs and the loan purchase agreement. The regional centers have all the Bay Area Housing Plan docs which need to be updated. Some needed to be rewritten. They have agreements with the NPOs. DDS had contract language, as well as several legal opinions that we needed.

We are close to finalization on everything that has to do with the Department of Developmental Services, and fairly far along on the work that we're doing with Bank of America.

Our current expectation on this is that the closing will occur at the end of this month or the beginning of April. And there will be two closings that will occur. It will be the Bank of America facilities.
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closing, which would mean essentially approval of every
document that's going to be involved in the transaction,
all the way through, from the beginning to our loan
purchase -- or purchase of the 72 loans over the next two
and a half years.

And there will also be a syndication closing,
with the several banks that are participating in the
syndication by assignment that Bank of America has put
together for this process. I think they've identified --
Gabriel Speyer is here from Bank of America, and I think
they've identified all those banks, and they've got their
documents ready to go out to them in almost-final form on
Friday.

Through this process, we have really not changed
our term sheet; but I would say crystallized a range of
issues that had to be dealt with, both in terms of what
the loan purchase would look like and anticipating
transactions on properties we've never seen two years
hence, to crystallizing exactly what would happen with
the sale of our bonds, working through all of the bond
issues, with Bond Counsel and our Finance Department,
working through a myriad of legal issues with our Legal
Department, billing issues with our Accounting
Department, and how we would handle the asset management
of this, as well as working through what kind of scope of
work master design guidelines we would get from the
master developer of the project.

We're close. It's a lot to pull together. And
I think we have been working full-time and working hard.
We wish we were done. I know I do.

The master developer, as he promised at the last
meeting, has continued to go out and look for properties.
They've surfaced 20 -- or 19 properties that they could
have bought. Ten they lost because of the delays in the
closing. They made offers on nine. They have two under
contract.

The surprise that they have found is that,
despite what the newspapers say, the real estate market
is not quiet. They've lost a couple of properties on
overbids and not being able to move as fast as the
sellers wanted them to move.

There are still five that are pending. They
also found they lost some because they hadn't coordinated
all of the signatures they needed from the Regional
Center steering committee, and how they got that whole
process working, they've perfected that as they've been
going along.

Their offers are, at this point, with funds that
are refundable because they haven't put hard money down.
They will, as soon as the close takes place. And we
anticipate that as the facility's close happens, we will
probably have properties that we'll be taking official
action on within 10 to 20 days after that facility's
closing.

The materials that I provided for you was a
tracking sheet from the master developer on the
properties they've identified. I wanted to let you know
that they have been working on this, our term sheet, and
how that's developed.

And then a checklist -- I didn't give you the
documents, but the 108 steps in our closing checklist
that would take us through the facility's closing
process, all the way through the steps that we would take
with Bank of America agreeing to add the property to
collateral and acquisition, what we would need for that
at the point at which we approved the plans and specs,
which would be before the first construction draw. The
point that we agree that we will take down the loan when
it has stabilized and everything is set; and we agree
that we'll buy the loan within 180 days, and then what
our bond steps would be and what closing would look like.

Each of those steps represents documents,
thoughts, and work that we've been putting into it.

We'd welcome any questions.

ACTING CHAIR SHINE: Huge job. Good show.
Any comments or questions from the Board?

MS. PARKER: Mr. Chairman, I know that we have some of our colleagues from Bank of America that are here. I just want to make sure that we recognize Gabe Garrett is here. I don't know if anybody else on your team is.

MR. GIPSON: Yes. Gabriel Speyer is here today from Bank of America.

MS. PARKER. If you would stand up.

MR. GIPSON: And Morgan Jones from McDonough, Holland & Allen, our outside counsel, who has been working diligently.

I will say, it has been a monstrous effort, without a doubt. I'm very proud of the team and everybody who has put stuff into it to move a great deal of the way. Because you can take a look at that checklist. And rest assured, there will be a few more items on it, without a doubt. But this whole process, we are trying to be very careful, concerned; and we are trying to give them what they need in a timely manner.

All parties have different understandings and different expectations in certain areas, certain groups who we are working with are not familiar with real estate as well, so making sure they have the appropriate counsels, and working with them and working through the
MS. PARKER: Is anyone here from the Department of Developmental Services?

MR. GIPSON: I don't believe I saw anybody today.

MS. PARKER: That's the other leg of the stool that brings in huge complexities: the Department of Developmental Services and the regional centers.

MR. GIPSON: And the regional centers.

MS. PARKER: So it is many cats to herd. I say that with great affection.

MS. WEREMIUJK: It's also the Department of Health Services. I mean, their Department of Social Services, we've been in discussions not just with DDS, but a range of parties as we've been doing this. But DDS has been incredibly helpful and gracious through the process, and really has been trying to facilitate it from their side.

ACTING CHAIR SHINE: Does anybody in the public want to say anything, ask any questions or make any statements or comments?

MR. SPEYER: I'll echo what Kathy said regarding the complexity of the project.

Thank you.

ACTING CHAIR SHINE: It is not a small
checklist.

MS. GALANTE: We have an expression that says, "If it were easy, someone else would have done it by now."

ACTING CHAIR SHINE: That being the case --

MS. PARKER: This is an information item only, Mr. Chairman. There is no action to be taken. Just given the significance of this, we believe it's really important to continue to give you information at every Board meeting about where we are at in this process.

We'll be chatting a little bit more about it when we go through our business plan update because -- our concept business plan -- because, obviously, it will fit into the Agency's production goals for the next year.

ACTING CHAIR SHINE: That being the case, let's take a 15-minute break.

(A recess was taken from 10:36 a.m. to 10:47 a.m.)

MS. PARKER: The majority of staff here are really from the Agency, because we've had the meeting in Sacramento, we try to have as many of the staff come and be able to participate and see what an actual board meeting is like, see the board member, see the decision-making process that you go through. So that's why there's considerably more people in the audience than
there would normally be if we were in the Bay Area, if we were in Los Angeles.

ACTING CHAIR SHINE: Good.

MS. PARKER: So, Ken, do you want to come up and introduce these PSAs?

Ken Giebel, our director of Marketing.

MR. GIEBEL: Just a couple of words on this --

good morning, by the way.

About three years, we made some PSAs, and cut it together from some footage we had shot for a video. One of our initiatives this year was to redo the PSAs, humanize them. The people you are going to see -- and I will let Evan talk about this a little bit -- this is Evan Gerberding, our assistant director of Marketing. And Evan is our video person. She comes from TV. So these are Evan's work, along with our ad agency.

And with that, Ev, why, don't you explain what we're attempting to do here? And I think we've been very successful, at a very small cost.

MS. GERBERDING: The intent was to show real borrowers. These are actual borrowers in all cases but one. And they're real stories. So we're trying to be as authentic as we possibly can here. And I think that you'll see that they are very genuine.

We have four 30-second TV spots. Two are
general market, homeownership spots. One is the same in Spanish. And then we also have one that focuses on what our Extra-Credit Teacher Program is. We're also going to air 60-second radio spots as well.

MR. GIEBEL: Just one other thing to let you know. These are PSA spots. Typically, they're run at the stations whenever they feel like it.

MS. GERBERDING: Three o'clock in the morning.

MR. GIEBEL: Whenever they have excess air time.

But we are working with the California Broadcast Association, and they have a special program where they buy -- they position it as a PSA that stations have to run under the federal laws; but they inventory and actually buy the excess inventory on radio and TV with 138 stations across the state. And at a very nominal cost, we can buy these air time in specific markets, and ensure that these are run from 6:00 in the morning to -- what is it, midnight?

MS. GERBERDING: From 6:00 a.m. to midnight.

MR. GIEBEL: Midnight.

MS. GERBERDING: And many end up in prime time, believe it or not.

MR. GIEBEL: So it's excess inventory, that they now get the inventory under their -- if you sign up with them, and all the independent stations are.
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So we plan on running these in the spring. The homeownership ones will probably sit on the ECTP one, the Extra Credit Teachers Program, a little bit longer.

Okay.

(Public service announcements played as follows:

"Ten years ago Matthew Nichols found this used guitar in a small music shop. He spent days repairing it before it would play. And while he worked, Matthew dreamed of someday owning a home of his own and fixing it up, too. But the rising cost of homes in California seemed out of reach, until he learned about the California Housing Finance Agency. They've helped Matthew and many others become first-time homeowners.

"To find out how CalHFA can help you, call us or visit our Web site."

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"This photograph has never been far from Kathryn and Philip Kay. Even when they moved from across the world, Kathryn insisted in holding it in her lap during the trip. They
also held on to a dream that one day
it would hang in a home of their own.

But the cost of housing in
California seemed out of reach, until
they learned about the California
Housing Finance Agency. They've
helped Kathryn and Philip and many
others become first-time homeowners.

"To find out how CalHFA can help
you, call us or visit our Web site."

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"With a teacher's moderate
income, who can even dream of owning
a home in California? Thanks to
CalHFA, Rodney can. By taking
advantage of CalHFA's Extra Credit
Teacher Program, Rodney was able to
realize his dream of owning a home.

The California Housing Finance Agency
has helped nearly 1,200 California
teachers become first-time
homeowners.

"To find out how CalHFA can help
you, call us or visit our Web site.")

MS. GERBERDING: Now this last one you are about
to see is in Spanish, but we've added English subtitles to it. This, of course, isn't going to air that way, but just for your benefit, they're on there.

(Public service announcement played in Spanish.)

MR. GIEBEL: Thank you.

ACTING CHAIR SHINE: Nice. Very nice.

MS. PARKER: I want to make one other pitch for our Marketing Department, and that is, they've been working particularly on the Extra Credit Teacher Program, and had a major breakthrough with the assistance of the Treasurer's office in getting the CTA to waive an original denial for us to be able to have our Extra Credit Teacher Program marketed in competition with some of their other vendors. So I really want to appreciate and acknowledge the efforts of the Treasurer's office in helping us with that program that I know is very important to the Treasurer.

I'm going to swing around here and participate in the presentation of our business plan.

MR. MORRIS: Just one question on the PSAs.

MS. PARKER: Good, yes.

MR. MORRIS: Are those going to be on the Web site as well?

MS. GERBERDING: Yes.

MR. GIEBEL: Yes.
MR. MORRIS: And also, is it possible -- I think the Governor's Web page probably gets the greatest amount of hits.

Is there any way they will let us put those on --

MR. GIEBEL: We'll have to ask them. But at the very least, we should be able to get a link.

MR. MORRIS: Yes, that's what I mean, a link from there.

MR. GIEBEL: Right. We're linked to HCD and some of the others and TC&H.

MR. MORRIS: Okay, great.

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Item 6. Progress Report on Development of CalHFA Five Year Business Plan

MS. PARKER: It's still "good morning."

So we've tried -- every year in the March board meeting, we essentially start out the new fiscal year -- in January updating where we are and a business plan from a midyear update. Then we come back in March, and we essentially talk with you about a concept proposal for the business plan to be adopted by the Board in May. This is based on us having meetings with some focus groups, some of our customers, to find out what's going on in the market, what we think some of the major needs
are. And also us looking at our internal resources and capacities, to see what we think we can stretch and propose to the Board as a business plan that, once adopted then, this becomes the instructions to the staff of what our goals and missions are for the next upcoming year; but also to our community, what our business plan is for the next three to five years, so they can plan on these resources and these lending programs being available, if they can't have access or are working in the middle of a deal now that may not come to fruition to apply for our loan products for the next year or two.

So I am going to walk you through with the assistance of the senior managers; but I think what I wanted to start doing just for the first is, is to tell you how we're going to do this presentation.

The first thing we're going to do is start off by giving you an overview of the Housing Assistance Trust funds for program initiatives. And that's really our Agency's resources for us to have the maximum flexibility of investments to further our mission and goals.

From that, once we set that stage, we're going to talk about the production goals for Homeownership, Mortgage Insurance, Multifamily, and other lending programs; and then we're going to talk a little bit about where we are on our Asset Management and our REO
properties, and talk with you about some of the
considerations that we also want you to be aware of in
order for us to meet what these concepts are, and may be
some impediments to meet those concepts.

So to begin with, I'm going to ask Bruce to
provide a segue between some of the discussions we've had
and last meetings, going through our financials, going
through the updates by Gene Slater on our assets and our
portfolio that bring us to what our recommendation is: of
using the Housing Assistance Trust funds that are on the
slide before you.

MR. SLATER: Thank you, Terri.

Good morning. Unfortunately, I look at the
Board that's sitting in front of me today, and I don't
see many faces that participated last year in the
analysis that we did. We called it the resource
allocation study. There's a few of you; but some of the
Board members are new, and people simply weren't able to
attend some of the meetings. But we did contract with
CSG Advisors during 2005 to conduct what we refer to as a
"resource allocation study." We did this in conjunction
with an annual effort of running our consolidated cash
flows that we do for bond-rating agency purposes.

We shared the results of the resource allocation
study and the cash flow analysis with the Board at two
times during last year. There was an April special
session of the Board, and then as a part of the
July board meeting.

The good news is, of course, we passed even the
most stressful rating agency runs for our two primary
indentures. But what it did illustrate to us is that
there were some serious restrictions, if some of the most
stressful runs were to actually happen. And these are
situations where interest rates go to extreme levels, or
prepayments go to extreme levels. And what we came away
with from that exercise, is that we wouldn't be able to
withdraw large sums of monies from the indentures to pass
stressful environments in our two primary bond
indentures: the one we operate our single-family housing
program from and the Multifamily Program.

The second phase of that resource allocation
study was to model up the business plan that the Board
approved last May. So we took the annual production
levels and assumed that we would reach all of those
production levels. We would issue bonds accordingly.
We modeled that over a five-year period, using management
expectations. Not stressful expectations of interest
rate environments that we don't really foresee ever
happening or prepayment levels that we would ever foresee
happening.
So part of that, we used an amount of about
$65 million from the Housing Assistance Trust to support
special program initiatives of the Agency, similar to
those that you see on the slide in front of you.

The expected case cash flow analysis, what that
pointed out to us is that over that five-year business
planning period, beginning in 2005, running to 2010,
continue to show positive growth of fund balances.
However, the growth was at a slower pace than what we had
realized historically within the Agency.

That analysis has not been updated since last
summer. I think we last looked at that in July.

We have since then seen financial statement
results as a part of the annual auditing process. And I
think that was brought before you in November. Operating
results were not robust, perhaps the lowest that this
agency has realized in a number of years. $21 million of
net income.

With all of that as background, we felt that a
prudent management level of expenditure utilizing our
Housing Assistance Trust funds would, again, be a
$65 million number.

MS. PARKER: I think the importance of this is,
in the past we have essentially talked with you about,
you know, production levels in these programs, but really
haven't brought into focus the utilization of the Housing
Assistance Trust funds. And at the end of the day, for
the Board, this is really your decision-making process,
because the production levels in those different programs
will fall out, depending on what you do here.

So we are -- and we're trying this last year to
discipline ourselves, and holding ourselves to the
$65 million, so that we manage the amount of money that
we're taking out of our indentures on a planned stream;
that we don't use any one of any great amount in any
given one year, and thus not have that in an upcoming
year, or more heavily rely on increased profitability
that may or may not come.

So what we're trying to do here is, given the
additional information that we have been able to do
through these analysis, looking at profitability and also
what we want to achieve from a public benefit stand, we
have come back and made our recommendations to you here.

And we will talk through, if the Board decides
to adopt this strategy and/or wants to make some changes
to it, what we think that that may mean from the
productions that will follow this.

So I am just going to go through and give you
some sense of what this actually means in the
productions.
We're proposing to have about $35 million be available for Down Payment Assistance.

Now, two years ago, the Agency spent almost $85 million of Housing Assistance Trust fund and Down Payment Assistance to do about $1.2 million with single-family production.

We decided that we just could not maintain that amount of resources, of scarce Housing Assistance Trust funds for Down Payment Assistance. And that's why the last year we made some changes in some of the single-family products that we did. We moved to an IO, 35-year loan product; and our regular 30-year product being 100 percent loan, so that the Down Payment Assistance or Prop. 46 could be on top of that.

But Agency funds for Down Payment Assistance wouldn't be used to the extent that it was in the past. So these -- we'll talk about what these are specifically to be utilized in production in high-cost areas.

But we were able to discipline ourselves, and even with that, increase our housing production. That allowed us to be able to put more Housing Assistance Trust funds into some of the programs in the Multifamily area, which we started last year: Habitat For Humanity programs. Continuing to fund our HELP program at a $20 million level. Continuing to have a special business
development program. And more importantly also, put a
$10 million commitment in for funding for -- liquidity
funding for Homeless Projects. And that ties into the
Governor's proposal that was put in his May budget, and
adopted by the Legislature, for a Homeless Phase I
Initiative.

So we're building on that for the 2006-2007
level, going forward.

And if you see what we have proposed as far as
HAT budget commitments, it is to keep Down Payment
Assistance in single-family at about 35 million.

Our Self-Help Business Development -- or
Self-Help Business program at two and a half million, we
are proposing -- and we'll talk about this again when we
go through the individual ones -- is to create a new
subsidy program, or substitute program in Multifamily
lending, which is the AHP -- we'll talk about that -- to
maintain the commitment of $5 million for Habitat.

To have a $30 million locality program, half of
it being funded from HAT, the other half of it coming out
of Prop. 46 funds that we got legislation passed last
year to create this residential development loan program,
where we would use Prop. 46 funds to offer to, under this
proposal, localities for them to do homeownership kinds
of construction.
The portfolio management needs to resshore up through some lending for some of our existing projects. And we're proposing that at $4 million.

The last column over here is what we are -- our expected HAT utilization. And as you can see, that numbering goes down to $65 million. And when there are variances between what we're proposing the budget to contain and what we expect -- expecting utilization, it's just, frankly, our best against, particularly for some of these new programs, of what the utilization will actually be. If we are surprised, we can handle it, we can manage it; but we think it's important that the community know, for example, that there's going to be $10 million in this new Multifamily lending program in order to create additional business, see it by developers that this could help projects pencil out. But the reality is that we don't think we're going to have any more than about a $6 million demand next year.

So I'd be happy to answer any questions. But we wanted to lay it out this way because, you know, this is really, you know, the major decision-making point for the Board.

MS. GALANTE: I just have some clarifying questions.

You've got broken down between single-family
programs and Multifamily programs. But some of the things listed under Multifamily programs are actually going to Homeownership; correct? So it's -- is this really kind of mortgage versus production? I mean, Habitat For Humanity, and then you mentioned under the Prop. 46 money, my sense was that some of that help was for ownership, which I'm just trying to make sure I'm understanding.

MS. PARKER: Right. I think as we go through the slides, the reason why it's under Multifamily programs is because the director of Multifamily administers -- it really manages these programs.

MS. GALANTE: Great, great.

MS. PARKER: On our slide, they'll show up as special lending programs.

MS. GALANTE: Great.

MS. PARKER: Good question.

Okay, I'm going to let that settle. And let us go in, and we'll talk about the programs specifically.

To walk us through Homeownership, Jerry Smart. Jerry?

MR. SMART: Good morning.

In the Homeownership program, we're proposing to set a significant goal for our first mortgage production.
It represents about a 25 percent increase over the current fiscal year.

This year, our goal was 1.2 billion for first-time home buyer lending; and we're proposing to increase that to 1.5.

We're fairly confident that we'll be able to achieve that with the support of the HAT Down payment Assistance-funded funds, the 35 million, plus Prop. 46, the four programs that we have there, will help support the origination of those first mortgages.

And as coupled with our continuation of the interest only PLUS program, since we introduced that last March -- April, I think it was -- we have seen that program increase to where it's now, roughly, about 38 percent and growing over our current portfolio. And that's without our major originating lenders participating. It's taking them some additional time to come on board.

Wells Fargo, Countrywide, Chase just started this last month. So once those major lenders participate, we think that this will continue to grow significantly.

We are also introducing the 40-year mortgage. In fact, we issued a bulletin last Monday to introduce this.
The lead time for programs in Homeownership takes a while. And reservations that are taken today, it's going to take 90 days before we see delivery on those. We figure that our lenders are going to need at least 30 to 60 days just to get their systems up to date and ready to handle the program. So by the time all of this kicks in, it will be the beginning of the fiscal year.

And we think the 40-year, although it's not going to be as sought after as I would imagine the IOP -- the interest only -- I think it will become a significant part of our business going forward.

Homeownership will continue to evaluate and introduce new loan products to meet market changes and customer demand. For example, we're working with Fannie Mae and other HFAs across the country -- Mass Housing, to name one -- which we're developing standard branded products, or standardized loan products, such as the 40-year mortgage, so that can be utilized by HFAs across the country. And we will continue to look at that.

We'll continue to look at our current programs, to see if we can -- if they need to be amended or targeted to specific areas to improve productivity.

And we'll be implementing marketing and IT
enhancements to stimulate production. For example, we are looking at developing -- or we are in the process of developing a lead generation program. Currently, it's going to be very similar to the CalPERS lead generation, which will identify active loan officers, originators of CalHFA loans; and try to refer them -- or give them referrals -- loan referrals.

When we receive phone calls from interested home buyers, we can refer them to their most active participants, and turn those into real loans. Whereas if they just go out now, they go to our list of potential lenders. And some of those, we'll never see again. They get flipped into something that's probably less beneficial.

So it's our hope that we set up this program, and with the follow-through that we visualize with these lenders, that we'll be able to turn these into potential CalHFA loans.

And we're continuing with our Homeownership origination project, to upgrade the loan reservation system. It includes a better business practice process, in which we'll analyze the current processes within Homeownership, and look at outside -- other HFAs and lenders to see what better business practices they have that we can adopt to improve our productivity and
streamline our program.

So with that, that's --

MS. PARKER: Before I have you answer questions, I'm going to also introduce Greg Carter, who is our interim director of Mortgage Insurance.

And I think it's important for us to talk about Mortgage Insurance and our first mortgage loan programs together. Because as Greg will tell you, these programs are really going hand in hand.

So, Greg?

MR. CARTER: Yes, we see our role in this business plan as actually supporting Homeownership's goal of 1.5 billion. In order to do that, we have looked at the history. In 2003, 12 percent of what we insured was Homeownership product. 2004 it was about 26 percent. In 2005, 51 percent of our insurance was on Homeownership product. And the trend is upward.

With the introduction of the new programs that Jerry has talked about and about to roll out, we see that we have to start to realign our resources to cope with the production levels that Jerry is going to do, translating into $840 million a year in that fiscal year for Mortgage Insurance.

So we need to be sure that our resources, both financial resources are available, as well as our
physical resources: Can we handle that amount of
business?

And, obviously, we think we can; but these are
the things we're looking at.

We want to continue to participate in the CalHFA
loan program by offering low mortgage insurance premiums,
as well as other products, similar to the HomeOpeners
program, which is an unemployment insurance aspect of
that.

We also want to participate as much as we can
in helping promote and to train lenders on the CalHFA
products, and to be involved in the outreach events that
involve CalHFA, as well as insurance products.

MS. PARKER: And I think as Greg was saying, one
thing we did, we essentially looked at the kinds of
insurance products that we have had in the last five
years or so. Some of them have really declined in
production. One that is most notable is a partnership we
had with the state teachers pension fund. And we had a
meeting with them recently, and said, as much as we would
like to, their -- they wanted to raise their sales price
limits and their income limits, which is really not our
goal, custom, or group. And it would have taken
resources available, away from us that we could be using
in matching with the CalHFA first mortgages.
So we really have gone through, to some extent, a refocus of our capacity to better serve what we believe is our targeted group.

So with that, if there are any questions on the homeownership side, insurance side, we're prepared to answer.

Mr. Morris?

MR. MORRIS: Yes, on the home mortgage products, you said about 38 percent are the interest only PLUS product. Maybe you can just go through your asset allocation of how you envision where we see 1.5 million in new products this year. What would be the major loan programs that you think would be the most successful, or --

MR. SMART: Going forward, I would think that the interest only PLUS would represent about 40 to 45 percent of our total loan production, of the 1.5.

The 30-year fixed-rate mortgage would probably -- in this coming fiscal year -- represent about 45 percent as well, or maybe 50 percent, and the remaining balance would be the new 40. That's, you know, just --

MR. MORRIS: How will that work out?

MR. SMART: It's quite early right now to make any intelligent guess as to what we're going to take in.
But I think it will probably be overall --

MR. MORRIS: So the interest only and the
30-year are about equal in popularity right now?

MR. SMART: I would say so, yes.

MS. PARKER: Okay, thank you both, gentlemen.

Let me introduce our Multifamily team and have
them come up and do their presentation on our Multifamily
production goals; and that will not only be Multifamily,
but also special lending.

MS. FRETZ-BROWN: Beverly Fretz-Brown, interim
director, Multifamily.

The production goals for next year were being
quite ambitious; and we'll fill you in, in terms of why
we think we can make it.

As you see there, the total production we're
hoping for is about 320 million; and that includes the
Bay Area Housing Plan, of those figures. But even with
or without the Bay Area Housing Plan, that represents
about a 38 percent increase over this year, over our
expected new final commitments.

As you recall from the midyear meeting, the
Multifamily division this year has been concentrating on
closings. And by the end of this fiscal year, we will
have closed approximately 450 million dollars' worth of
loans. It's been an incredible effort. It's three times
the number of closings of last year. And last year was our highest closing.

So with a great concentration on closings, with at least part of this year, a poor interest-rate market for us, and with very, very significant competition from the private market, particularly on the construction loan side, we've had a real dip in our production. We want to reverse that, and we're committed to reversing that. And we believe the new products that we are proposing to you, or at least giving you a heads-up that this is what we're looking for, and coming forward for you in the business plan in May, that we are confident that with these new products and some internal changes and processing of the Agency, we'll be able to get up to that loan production expectation that's before you today.

The first new lending program we'd like to talk about briefly is what we call our 30/15. And Ed Gipson is going to describe that briefly.

MR. GIPSON: Yes, it's part of the new permanent loan program. Basically, historically, we've had a 30-year amortization on our permanent loans with no right to prepay. And more and more difficulties, the reality is particularly with these tax credit deals, that after you're 17, something has to be done to recapitalize the project or get your equity investor out of the deal. And
so trying to meet the balance of both worlds, we've tried
to work through all the details to provide the 30-year
amortization, but prepayable after year 15. So that for
those who need to get out, now have the option and a way
to do so; and those who want to maintain their fixed-rate
mortgage for the life of the loan, they can now stay.
And there seems to be quite a bit of excitement about
that. So we try to meet the difficulties and provide the
flexibilities needed to the borrowers, and then maintain
our traditional rates.

The second piece that's right behind that -- and
I'll just tag right onto the -- is the architectural
review. We've had years and years in different
processes; but parts of the manual and things are rather
old now. So we are currently in the process of
identifying what is now important to us.

One of the things we're actually going to look
for and provide better and more clear detail to everyone
out there, is what those issues are. And the things that
aren't our issues, we're going to stop --

MS. FRETZ-BROWN: Reviewing.

MR. GIPSON: -- providing the review over those.

So that, let each group manage their piece; but just
focus on the pieces that are most important to us. And
in addition, as part of that, we're actually going to
reach out. So we're going to go through -- we're doing our research with other HFAs and other groups out there. We're talking to the architects who design these deals. We'll start with architects who we know more familiarly and are more friendly with, and we'll work with those who have had issues in the past, to actually get their input. In addition, we will talk to the engineers and we will talk to the developers as we incorporate this scope. And once we get all that down, as well as talking to our internal staff -- and once we get all that down, we will go out and talk about, you know, how we got here and what this is all about and what we hope to accomplish by it; and also help to provide basically a resource and an understanding to those out there in the community. And we see a great deal of Multifamily deals. A lot of deals.

(Jan Boel entered the room.)

MR. GIPSON: And we have a great deal of information about common things that happen to each of these deals.

And so perhaps from all of this, you'll be able to get the value input of things that will help build the building for less money, avoid costly construction errors, and have materials involved inside the project that actually have a longer life, probably the same basic
costs as you would have had, anyway, but, actually, providing operating efficiency. So we look at providing a valuable resource.

MS. FRETZ-BROWN: Thanks. Predictability and value are really the touchstones for the changes that we're proposing in the architectural review process. And as I mentioned before, this is a huge activity, and I really commend the staff for taking it on with great vigor.

The second new product that we are proposing, we call -- really, for lack of a better term -- an AHP substitute. But it really is that.

One of our nemeses in construction lending has been the Agency's inability to access the Affordable Housing Program funds of the Federal Home Loan Bank System, and which puts us at a pretty significant disadvantage in construction lending, so -- which is why the AHP funds are typically brought in, for good reason.

We can't compete on a dollar to dollar, forgivable-loan basis with the Federal Home Loan Bank's program, but Laura will describe for you what we think we can do to get ourselves to be more competitive in that construction loan market.

MS. WHITTALL-SCHERFEE: I'd like to start by saying that we hope to come up with a little bit snazzier
name than "AHP substitute." But it is very descriptive of what we're actually trying to achieve.

We know that in addition to the changes that Edwin already discussed, that one of the issues is we need to come up with a program that is similar or substitutes for AHP.

We're still working on the general parameters, but some of the things that we're looking at include becoming a residual receipt lender on the AHP program. We feel that that's critical. We can't expect this loan to be a second mortgage with fixed payments. So we're looking at something that's along the lines of a $5,000-per-unit loan, up to perhaps a $375,000 cap with an interest rate, unlike AHP, of approximately 3 percent.

That would be using HAT funds, as we've talked about; but we also have an opportunity to perhaps use Agency FAF funds. And that will maybe help us make this rate a little bit more competitive. The 3 percent seems to be something that is achievable.

In addition, we would be a residual receipt lender, and we would be a junior -- in a junior lien position. We would step away from requiring that we be senior; and we would just be repaid on a pro rata basis using our residual receipt loan and comparing it to other residual receipt lenders. And that is probably the lien
position that we would be ready to accept as well.

Whatever is commensurate with our dollar amount, compared
with everybody else.

The goal is to use these three changes to make
our construction lending program more attractive. And
even though I gave you parameters, like interest rates
and dollars per unit and anticipated maximums, we really
expect to come back to you in May with something a little
bit more concrete. Because one of the things that we're
doing is, we're talking and working with our Finance
Department, to make sure that while trying to create
programs that make us even more competitive, that we're
not walking away from money that we shouldn't be walking
away from.

If this -- it's a 30-year loan. It's
anticipated to be a 30-year loan; but it would tie in to
the permanent loan, in that it would be either 30 years
or paid when the permanent loan that we make is prepaid.

Because the expectation is, there will be a minimum
permanent loan amount that is required to take advantage
of this AHP substitute program.

MS. FRETZ-BROWN: So that's the balance that
we're still working at in terms of a significant
incentive, but still maintaining the Agency's
profitability in lending.
Thank you both.

And we're very hopeful. We've had a lot of discussions with nonprofit and for-profit agencies, with intermediaries and consultants; and we think that these are two sound products.

Do you want me to start with the homeless stuff?

Or do you want to --

MS. PARKER: I'll do homeless.

I think, as I mentioned earlier on, I talked to, several times, about the Governor's Homeless Initiative Phase I. And clearly that's one that Judy Nevis is well aware of because HCD is really the major partner with CalHFA and the Department of Mental Health in implementing this proposal with the use of Prop. 46 funds, MHP funds, and also through the Department of Mental Health, some of their Prop. 63 funds.

In developing the Governor's budget going forward, there was a discussion about trying to continue the work in the area of homeless. And right now, the homeless initiatives are really coordinated out of the Governor's Office of Planning and Research. Jan Boel, who is representing Sean Walsh today; and Sean has talked about it at a couple of our board meetings.

But there were some further discussions about homeless programs, particularly because with the
passage of Prop. 63 in November of 2004, the father of that initiative, Darrell Steinberg, has been talking at the committees, oversight committees of Prop. 63 about the utilization of Prop. 63 funds for creating permanent housing for chronic mentally ill. And so we have had some internal discussions between the Department of Mental Health and the California Housing and Finance Agency about the ability to see if we could produce some kind of a model to take advantage of these funds. And a proposal has been put together for consideration by the Governor's office. And we're at that point in time for the Governor's office to be making a decision about whether or not to announce this initiative.

So I've put it down here because it certainly would be a major workload and add to our production, but also add to the degree of complexities and difficulties of what the Agency would be trying to run and administer. And, you know, some of that will fall into the discussion of other considerations, at the end.

But I do want to let you all know that it is something that's being talked about. And if it is likely to occur, what I would propose to do at our next Board meeting in May, is to -- we've thought about doing it now -- but to ask Darrell Steinberg and our other colleagues to actually come and chat a little bit about
it, because it would be really a fantastic initiative.
We're talking about the opportunity, if we're able to do
this, to create in the next 20 years over 10,000
permanent units of housing for chronically mentally ill,
homeless.

MS. FRETZ-BROWN: That's huge.
Okay, thanks.
That's hard to follow.
The Multifamily Division at CalHFA also
supervises a number of the special-lending programs that
are discussed in the slide.
The first one to this, obviously, is the
continuation of the HELP program. This is a loan
program, two localities, for a variety of low- and
moderate-income housing. Overwhelmingly, about
90 percent of those loans to localities go for rental
housing that are very low-income households.

Just briefly, to date, the HELP program has lent
about $138 million to 97 different cities, counties,
redevelopment agencies, and housing authorities
throughout the state, which expect to produce 17,300
units. Again, 91 percent of them actually are
multifamily. Very affordable units.

It has been an extremely successful program.
We're looking forward to the repayments under that
program -- they are ten-year loans -- so that it can be self-supporting in the future, versus sustainable -- self-sustainable, like I say, in the future.

So, clearly, we are very interested in maintaining the volume of HELP activity, and are proposing the business plan not be maintained at 50 million a year.

The second one, the Habitat for Humanity program was a brand-new one this year. We put out our first notice of funding at the $5 million level. And this is a purchase program. We purchased seasoned Habitat loans under some very favorable conditions, where the local affiliate of Habitat International can repurchase those loans. If something goes bad, they can pay on those loans for a year before repurchase, or they can find a substitute borrower who assumes the loans.

The Agency under this program would also do the servicing for the local Habitat affiliate.

What this purchase program does, obviously, is give the local affiliates capital that they typically didn't have available. And so it's a very significant part of any capital campaign.

In the first round of funding, we received loan purchase requests for approximately 2 and a half million dollars. We expected more. We are contacting other
Board of Directors Meeting held on March 9, 2006

affiliates. And for a variety of reasons, some wanted to
take a little more time in trying to figure out whether
and how much of the loans they would like to be available
for purchase. Others are really waiting until their
capital campaigns come in the future. So we think this
is a very good start.

It's an important partnership as well, with a
significant element of nonprofit community.

The third program is new. We talked a little
bit in the midyear board report, and that's the
Residential Development Lending program. This is one
where we're using 75 million of Prop. 46 funds that were
originally designated to CalHFA for Mortgage Insurance.
Actually, it was, I think, about 86 million; but
75 million basically was remaining. And it wasn't quite
working as one would anticipate.

So those funds could roll over into what we call
"Residential Development Loan Program." And they would
be for loans to stimulate ownership housing that's
affordable to low- to moderate-income folks in urban
infill areas.

After a number of meetings and discussions with
housing developers, as well as with local government
officials, the program that we're considering -- and it
will come forward in the business plan in May -- is a
loan to localities patterned after the HELP program. The maximum loan being somewhere around $4 million, with a four-year term. The purposes would be acquisition and related predevelopment expenses. Again, ownership housing, infill areas, it can be condominiums as well as fee-simple properties. And there would have to be a minimum percentage of those units in a development that would be affordable to no more than 120 percent of area median income.

And with that loan also would come a reservation of our Down Payment Assistance funds. So our goal is to make available $10 million. Upon this program's approval in May, our goal would be shortly thereafter, to make available $10 million by the end of May, the beginning of June. And the program would be let out at the same time as the HELP program, so that these two programs for localities would basically be run -- would have parallel tracks.

Again, as in the HELP program, we certainly intend that these funds be revolving loan funds. And so that ultimately our investment of HAT and Prop. 46 money will revolve back and create a certain sustainability to maintain these programs over time.

MS. PARKER: Just to add to what Bev is saying, and to make sure that we foot and cross foot; we're
proposing a $15 million level of the Residential Development Loan Program, so that our programs to local partnerships would be $30 million, in totality.

MS. FRETZ-BROWN: Thanks.

MS. PARKER: Are there any questions for Bev on any of the areas of Special Lending or Multifamily?

MS. NEVIS: I just had one question, and that is the four-year term, is that the idea that then some other financing will be found or --

MS. FRETZ-BROWN: Oh, absolutely. We -- the conversations we've had with developers in localities is that this up-front money with acquisition is the toughest. And in many instances, the localities will put in their money. Our money could help reimburse for some of those costs, but basically it would keep those projects moving more quickly. And so we see this for acquisition and predevelopment. And it clearly would be taken out --

MS. PARKER: The idea would be in that particular case, that when the units are sold, they would pay back all the instructions, land -- all those different costs.

MS. FRETZ-BROWN: That's right.

MS. PARKER: Carol, I can't believe you're not going to say something about the changes in our term.
MS. GALANTE: I was just going to ask you -- I
don't have any questions. I have all kinds of comments
on a number of these programs. I was kind of waiting
until the end to comment, because I have -- and they're
all positive comments. So whenever you're ready for
comments.

MS. PARKER: Well, I think for now -- and,
again, you know, whether you do it individually or we do
it all at the end -- because, I mean, it is a zero sum
game of where we put everything. And we'll finish, and
then you can decide. But I think we are very, very
excited about what the Multifamily staff has come forward
with. And clearly, it's our intention to make sure that
the Multifamily community knows CalHFA's and the Board's
commitment to Multifamily.

So we can bring people up, if there are more
questions.

But then let me switch and bring in -- have
Chris Penny come up and talk about Asset Management.

Many of you may or may not know, but Chris Penny
is Margaret's second in command, and Margaret has had a
family emergency.

So, Chris, if you want to walk the Board
through -- because we have $4 million of HELP fund
committed to -- or Housing Assistance Trust funds
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committed to Asset Management goals.

MR. PENNY: Yes, good morning. In terms of the HAT loans that are set aside for Asset Management, what our thinking is, is that as the Agency is in its thirty-first year, we have quite a few projects that are getting older, they're aging.

And typically, between the fifteenth and twentieth year, projects need to be recapitalized, to various degrees. And we have found in our portfolio that we have a handful of these that we're trying to focus on, assess their physical needs, and try to set aside some of the HAT funds for rehabilitation, things that the projects are unable to accommodate in the normal replacement reserves that we require. So that's a big goal of ours for this year, in addition to continuing our contract administration for our approximately 150 Section 8 projects that we work with HUD. That work brings in about $1.5 million a year in Section 8 administrative fees from HUD. And that's a major part of our staff's time.

A special project that we're working on right now, and hope to finalize and complete this year, is the sale of our REO portfolio. We have six REOs around the state. One of the REOs is being taken out of this current offering because of some fire damage that the
project suffered recently. So we currently have five
being offered, and we have a broker that is helping us
market those properties. And hopefully by the next Board
meeting, we might have some more information on that.

MS. PARKER: If there's any questions of Chris?

(No audible response)

MS. PARKER: If not, I'm going to move to our
last slide, which is "Other Considerations."

Thank you, Chris.

MR. PENNY: Yes.

MS. PARKER: And I would ask Steve and Bruce if
he'd come back and join me.

Mike?

I will just segue, given Chris' comments on the
REOs, it does present an opportunity for the Agency to
look at what might be an initiative for the corpus of
those funds.

And Steve's going to talk a little bit about
that.

MR. SPEARS: Well, we're starting the process of
looking into putting all of our employees in Sacramento
under one roof. As you probably know, we're in the
Meridian Building, we're also in the Senator Hotel. Both
those leases expire simultaneously, so the good planning
of our administrative folks, and that occurs in about
three years. And so the idea is to try to get everybody under one roof.

We're starting this process. We're going to have some consultants help us sort through the issues and help us sort through the numbers, the economics, of build and buy versus lease, and that sort of thing.

And there are a number of different ways to finance it. At present, bond financing requires some legislative changes. There's REO sale proceeds that might possibly be used towards this sort of thing.

And, of course, you could use something on the order of long-term tenant credit lease. All those things are being sorted out at this point.

We just wanted to alert you to the fact that this is on the horizon. It's a really important project for us because we really would like to have those in Sacramento under one roof. And it will avoid colds and the flu by trooping back and forth from the Senator and the Meridian building, if nothing else.

MS. PARKER: Some of you who have been around CalHFA for many, many years, and when it was CHFA, the prior executive director, Kearney Hodge, actually considered the purchase of the Senator Hotel. And, you know, that may be a little bit like people's comments about some of our other elected officials who have had
visions of, you know, getting satellites and being a little bit ahead of their time. But I think it is something that we now want to take a look at and see from an economic standpoint if it makes sense.

Michael, are you going to do the IT?

MR. HOWLAND: Yes, my name is Mike Howland; and I'm the director of Information Technology for the Agency.

During the last year, the Agency has engaged in some very extensive reviews of our IT organizational and technology infrastructure, and also the technologies that support our various business operations.

As a result of those reviews, we have initiated several efforts to upgrade -- update, if you will -- our organizational and technology infrastructures, as well as actually initiating several projects to address the future technology needs of our program areas. Among those, are the one that's on the slide, which is to service debt management. But we've also initiated projects for Multifamily, Homeownership, and Fiscal Services as well.

We have a lot of very interesting and challenging Information Technology initiatives that are going on in the Agency right now.

MR. SLATER: Pass the microphone around here.
The third bullet there, or arrow, relates to product profitability. That was an outgrowth of this Resource Allocation Study that we did during 2005.

There were two things that came out of that, that we wanted to spend additional time on: One was to make sure the Agency had adequate capital that could be placed in reserves for rating-agency purposes. Because many of the real-estate-related risks in our programs are set aside -- we set aside specific amounts of capital for those purposes. So we're underway with that process.

The other thought that came about, was that we should analyze a combination of loans that we put together into a product, be it for Homeownership purposes or Multifamily purposes.

My staff and I worked on that, and we had our first meeting about that -- I would guess about a month ago. We looked at two or three combinations. We need to do many more combinations, to look at the profitability.

The initial results were -- and I don't think it would be any surprise -- that we make more money on a long Multifamily project, one that's out there for 30 years, than we do on a single-family Homeownership loan with today's prepayment speeds is only around for three, four, or five years.

On top of that, we wanted to layer on the
operating expenses of the overhead of the Agency to initiate that product and to oversee that loan or product over its lifetime. So that's an ongoing initiative that we have.

Of course, at the end, we will be measuring product profitability versus public purpose benefit, trying to find the right balance for all of our programs going forward.

Oh, the next one is mine, too.

The investment management strategy is something that we've been talking about. The Board of directors established an investment policy for this Agency, I'm guessing it's ten or twelve years old by now. I think what this really relates to is that we want to go back and revisit that policy. That policy really documented what we were doing at the time. And primarily our investment strategies have been to use the State Treasurer's investment pool and to go out for bid for guaranteed investment contracts, when we issue bonds.

I think in today's day, it ought to be a broader -- we ought to look at different investment alternatives. We ought to perhaps segment pieces of the balance sheet and say that maybe we can go longer on the yield curve, perhaps pick up a couple of additional basis points.
So that's something that I would think, over the next 12 to 18 months, we'd come back before the Board with a revised policy and perhaps an investment management strategy.

MR. SPEARS: For Bill's benefit, part of that process will be coming over to talk to Dan Dowell and the staff, and really explore this. Because there are a lot of different ways to do this. We could have something separately managed over there or farm something out. But there's a lot yet to be studied about it.

MS. PARKER: Mr. Morris?

MR. MORRIS: The comment would be, 12 to 18 months where you have the investment management strategy, I think that's really important. And I think maybe that's something that we ought to try to accelerate and not wait 12 to 18 months to address that.

MR. SLATER: I was giving myself a pretty big cushion.

MR. MORRIS: We'll be off the Board by then.

ACTING CHAIR SHINE: Of course, you noticed.

MR. SLATER: There's two aspects to it, and I didn't bring up the other, is that we can certainly revisit the policy, that's the easy part of it. We also, as a part of the IT initiatives, would like to build some additional tools for us to better manage cash and
investments within the Agency. And they do at some point kind of tie in together.

MR. MORRIS: Maybe we could --

MS. PARKER: Yes, I think the point here is that we're starting in this business plan when we come back to you and talk about our operating expense. We're building, you know, these things in -- you know, we're starting now to essentially add them into our overall management information infrastructure. So we will -- to the extent that resources permit, which will segue into my next discussion, you know, it's certainly -- we are self-motivating ourselves on all of these kinds of enhancements, because we think that they are crucially needed to manage the complexity of the funds that we have, and certainly be available for the Board for your decision-making process.

MR. MORRIS: Would it help you, as you develop these tools, to review the investment -- to review these management -- excuse me, the investment management strategies earlier, so that that can be part of the input, as they are developing the tools? In other words, I just think that that's something we should address earlier.

I understand the need to coordinate that with the tools that you're developing, but I think it's
something we should address earlier.

MS. PARKER: I think we'll come -- let's take that feedback.

Again, what we're looking for from you today really is the feedback for where we should prioritize and concentrate. So these are all very helpful discussions to us.

Let me bring up the last line item here because in some respects it is the most significant item to everything that we have talked about in the last 15, 20, 30 minutes.

You will see at your seats that our most recent rating agency analysis from S & P is on our G.O. bond capacity, and it's a very good rating. We've always, you know, had very good rating analysis, very comprehensive.

If you read through the paragraphs on management, you will see that this is the first time, although the rating agency, S & P congratulate us on the competency of our staff -- and I would say, you know, with the loss of some of the significant people we have, the corpus of people who are here today in the Agency are doing outstanding work. But it is really -- is that enough, given the complexity and the degree of difficulty that we have before us?

And if you read that paragraph, you will see
that the rating agency makes a notation about the loss of
our staff and the need to recruit and retain and the need
to be competitive in the market that we have to recruit
and retrain from. And the problems that we have to be
competitive, given our compensation that is dictated in
the state and our Agency by the Governor's office and the
Department of Personnel Administration.

We have talked to them -- in fact, Steve, as I
mentioned, his paperwork is over at the Agency -- the
Governor's office, and it has been since November. And
the reason why -- it's not that they don't know Steve and
want to hire him, but it is a salary issue that we are
debating about. And the recruitment of the director of
Multifamily, the director of Mortgage Insurance and the
director of Homeownership are all going to be based on
what compensation.

We have hired a recruiting firm to help us. The
recruiter has essentially told us that the existing
salary that we have to offer will not provide the level
of competency that we need.

So we are in a discussion right now with the
Governor's office about whether or not we can continue
to do the kinds of complexity of programs we had done in
the past, and what will be our future.

Now, we have combined this at the moment with
this initiative of Homeless Phase II. And, in fact, we have told them in order to be able to implement that program, even though some of it's special-need funding, some of which we have done in the past, that we do not have the resources in the Agency to run that program unless we can go out and hire them.

And so we have negotiated and talked about legislation that we would need not only to set that program up, but also legislation to allow us to have the flexibility to have those salaries be set, based on some survey of our marketplace in order to be able to get the kind of competent people, and offer the rating agencies the security of knowing that that kind of competency would be in the Agency over the long run.

I do want to embarrass him a moment and point out Stan Dirks being here from Orrick, our bond counsel. Stan has worked on this initiative with me and particularly helped us craft what would be an initiative on the homeless side, but also what we would need on the compensation side; a structure that would allow the Governor's office to have involvement, but the salaries would be set by the Board based on salary survey methodology approved by the Department of Personnel Administration.

So I tell you all this because we have put
before you a business plan that is presumed we will be able to hire the people that can run these programs. If we do not have those, then we will be coming back to you in May with something that will be completely different than this. It will have substantially plain vanilla Multifamily kind of lending programs, and substantially reduced Homeownership lending programs, because we will not have the people to keep developing these kinds of innovative programs in the marketplace and deal with the -- particularly the credit controls that we'll need in order to maintain the risk of the Agency. So I want to leave that with you.

We have presented the happy scenario, because that's what we feel we need to do. But at some point in time, I need to -- just for the Agency to continue -- deal with the reality that if I don't have those kind of staff, what the rating agency's analysis will be on us, and what we can actually produce for our borrowers and our partners, you know, in the housing industry.

ACTING CHAIR SHINE: Thank you very much.

And kudos to all of you. It's a wonderful presentation. It gives us a good under-an-hour thumbnail sketch of the future, potentially. And very complete. And thank you.

Any comments or questions or ideas from the
Board?

Yes?

MS. GALANTE: A couple of comments.

I think this was an incredibly thoughtful plan that you all have outlined, and clearly it has taken a lot of internal conversation and evaluating where you are and where you want to go to make all this happen. And I just think some of the ideas that I've seen are really great.

I want to say that the HELP program has been fabulous. I don't know how long now it's been around, Terri; but I --

MS. PARKER: I think we're seven years?

MS. FRETZ-BROWN: Eight years.

MS. PARKER: Eight years.

MS. GALANTE: I would be remiss if I didn't say I was at the California Redevelopment Association annual awards luncheon yesterday in Monterey, where our Mandella Gateway project got an award that has CalHFA financing. But I think probably four of the various categories had HELP financing, because they list kind of all the financing at the bottom. It's a very well-used program.

And I think adding that residential for the for-sale component is just absolutely right on. I think communities are going to love it.
I think the AHP substitute, my comment is, I wish you could be the Federal Home Loan Bank and do a real AHP substitute. I think the idea of it in terms of adding to your business is really great.

(Mr. Morris left the hearing room for the day.)

MS. GALANTE: I would say, I would caution not to emulate or mirror some of the problems that exist in the AHP program. Because we have gotten to a point where we didn't really want to use it anymore, because for the small amount of money, the amount of requirements put on you by the Federal Home Loan Bank -- you know, empowerment-this and, you know, services-that is just so over the top, it's not worth $300,000. So you have to be really, really desperate at this point to take AHP.

So I think if you can find a substitute program without all the headaches, it will be a real competitive service. So I just want to add that.

So there's a lot of other things here that you mentioned that I think are great.

And my last comment is, if there's anything that we as a Board need to do to help you on this competitiveness, then, you know, I'd love to hear that. Because I do -- as a nonprofit leader, I face some of the same challenges. And I just think this one has to be solved for the Agency to be effective.
MS. PARKER: I agree, Carol.

You know, I've told everyone that I think that this -- we have done everything that we can, and we have been very fortunate in the recruitment that we've done in the last couple years. But we have just come to a point in time where we've hit the wall. And we have to solve that now, particularly because, you know, we have to provide predictability in our marketplace.

We have been very fortunate with having, in the interim, Bev Fretz-Brown work for us and continue our efforts in the Multifamily side. But Bev did this as a favor, and committed to only a few months. So we're going to be losing -- and we don't have the ability to hire staff on contract to do, you know, the day-in and day-out work. So if we can't solve the salary problems, we will change the business that we do. And part of it is just flat-out an education process. There is a lot of people who work in state government, they don't really understand what we do. They think we're the same as the Infrastructure Bank. They think that we're the same as, you know -- they don't understand that we are not backed by the full faith and credit of the State. And so it's really the investors who we report to, not the taxpayers who pay our salaries. But the problem is that state salaries are not competitive.
And, you know, when we look at our salaries relative to our sister housing finance agencies and the rest of the country, my colleagues have told me that they're behind me because California is bringing down the overall averages considerably. And yet you look at where we are relative to them. We're at the top of complexity with the number of outstanding swaps we have, with the -- you know, we are a $9 billion financial institution.

So we're going to see, and you can all keep us in your prayers; but I think what we're trying to do is make the education, make the best comments that we can. And also, you know, what we have done is certainly demonstrated on the merit.

Nobody else in state government could have done the Bay Area Housing Plan. You know, we're saving the State of California millions of dollars in programs for the developmentally disabled because of CalHFA. The Infrastructure Bank couldn't do that.

So, again, we need to hear: Are we on the right track with what we're proposing to use our HAT funds for? Anything -- you know, I've talked to John Courson, who last year wanted to amend so that we had more money for HELP, and he signed for this amount of money. But if you guys are, you know, taking into consideration the comments of Mr. Morris and Ms. Galante, we'll come back
and we'll be preparing a business plan that will further
be built on these premises, unless I have to come back
and essentially give you something that will change,
given the realities of the internal resources that the
Agency has.

ACTING CHAIR SHINE: I would venture to say that
given what we've heard here today and the few comments,
that everybody kind of would like to see you get to the
next step on this program.

Am I speaking out of line? Is everybody here on
the Board okay on that? Okay.

MS. PARKER: I think our real concern is that we
really hate to -- and that's why we haven't done it -- to
bring you an alternative business plan. I thought about
it: Should I bring it, too? I think we're in denial.
We don't want to do that.

But I think we recognize -- and you all are very
mindful -- once we get out of the competitive lending
market, even if we were to get, a year from now, the
ability to hire people, it will take us so long to get
back in. So that's my biggest fear.

With that, Mr. Chairman, I think we think move
on to the final portion of the meeting, which is the
closed session.
Item 7. Reports

ACTING CHAIR SHINE: Okay, there's some reports as part of your public package, if anybody has any questions on that.

--00--

Item 8. Discussion of other Board Members

Item 9. Public Testimony

ACTING CHAIR SHINE: Is there any other discussion for the Board before we go into private session?

(No audible response)

ACTING CHAIR SHINE: Okay, then we're going into closed meeting now.

MR. HUGHES: We have to have Item 9, which is Public Testimony, just to make sure that there isn't any out there.

ACTING CHAIR SHINE: I think I just asked them for that, and nobody said they wanted to speak. So that's why I decided it's okay to go into closed session.

MR. HUGHES: That's fine.

ACTING CHAIR SHINE: Am I incorrect?

MR. HUGHES: No, that's fine. I just wanted to confirm that.

I did want to put one comment on the record before we go into closed session. We don't transcribe
the closed sessions, and I wanted to make sure this was
on the record.

We have two different matters to discuss in
closed session. The one that's listed as number one,
California Housing Finance Agency v. Gateway Apartment
Partners, is not a matter that's come before the Board
before. I wanted to say that there is a conflict of
interest issue that is involved with this, perhaps
indirectly, but that we worked on extensively.

The owners of that project, Gateway Apartment
Partners, are the Agency's borrower. Adjacent to that
property is a property owned by BRIDGE Housing, which, of
course, Ms. Galante is an officer of.

And BRIDGE has no involvement with Gateway
Apartment Partners or the project, the Ridgeway Apartment
Projects. However, the reason that this litigation
exists, is that there are construction defects on the
Ridgeway Apartment side.

The BRIDGE side -- different parcels, different
borrowers, different owners. The BRIDGE side was
constructed at the same time and shares some of those
construction defects. And there has been
construction-defect litigation pending in Marin County
Superior Court, in which both BRIDGE and Gateway
Apartment partners have participated. Those cases were
So I have discussed the potential conflict issues extensively with BRIDGE's attorney. And as a result of that, Ms. Galante has scrupulously avoided any participation in the Ridgeway controversy from the BRIDGE side.

BRIDGE was also proposed to be a potential manager or a potential owner of a new entity that would acquire Ridgeway. That's now off the table.

I wanted to mention that I have advised Ms. Galante today that I do not think that there is -- because there is no action to be taken, nor any action contemplated to be taken by the Board in this case, I don't think there is a conflict of interest in terms of attending the closed session, nor do I think there's an attorney-client privilege issue that would be seriously implicated.

My understanding from talking to Ms. Galante is that she has elected not to attend the portion of the closed session part of the session regarding the first matter, the Gateway Apartment Partners, and will attend the other part, relating to our HC case.

So my request is that we take those in reverse order, so that we can deal with the second one first, and then have Ms. Galante leave.
Does that correctly state -- it's long-winded.

MS. GALANTE: Now that you've heard the whole thing. Yes.

MR. HUGHES: But I wanted to make sure that was on the record, to make sure it was clear to everyone what sort of the underlying ground rules have been on this.

And I think with that, we can go into closed session.

---00---

Item 10. Closed Session

(Closed executive session was held from 12:03 p.m. to 12:32 p.m.)

ACTING CHAIR SHINE: We've reconvened out of executive session; and we've adjourned the meeting.

(Proceedings concluded at 12:32 p.m.)

---00---
REPORTER'S CERTIFICATE

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

That the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

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

In witness whereof, I have hereunto set my hand on March 14, 2006.

Daniel P. Feldhaus
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter
CALIFORNIA HOUSING FINANCE AGENCY  
Final Commitment  
Lion Creek Crossings  
Oakland, Alameda County, CA  
CalHFA # 06-003 C/N

This is a final commitment request. Security for the loans will be leasehold interest in the 2.49-acre site and 106 family units located at 928-998 66th Avenue in the City of Oakland. Creekside Housing Partners, L.P., a California limited partnership, will own the improvements. Lion Creek III, LLC, a California limited liability company and Related/Oakland Coliseum III Development Co., LLC, a California limited liability company are its General Partners.

Lion Creek Crossings is a new construction project and is the third phase of the Lion Creek Crossings HOPE VI Master Plan development (formerly known as Coliseum Gardens HOPE VI Master Plan development).

**LOAN TERMS**

**Construction**

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Agency financing is subject to the assignment by the borrower of tax credit equity and all rights under non-Agency financing commitments.

**Permanent**

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<thead>
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<th>Third Mortgage</th>
<th>$530,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>3.00%</td>
</tr>
<tr>
<td>Term</td>
<td>40 year fixed, fully amortized</td>
</tr>
<tr>
<td>Financing</td>
<td>Taxable – FAF Funds</td>
</tr>
</tbody>
</table>

April 20, 2006
OTHER FINANCING

PERMANENT FINANCING

<table>
<thead>
<tr>
<th>Source</th>
<th>Type</th>
<th>Loan Amount</th>
<th>Term</th>
<th>Interest Rate</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCD - MHP</td>
<td>Loan</td>
<td>$9,028,478</td>
<td>55</td>
<td>3%</td>
<td>.42% Payment</td>
</tr>
<tr>
<td>Oakland Housing Authority – HOPE VI</td>
<td>Loan</td>
<td>$2,273,901</td>
<td>55</td>
<td>0%</td>
<td>Residual Receipts</td>
</tr>
<tr>
<td>City of Oakland</td>
<td>Loan</td>
<td>$4,600,000</td>
<td>55</td>
<td>3%</td>
<td>Residual Receipts</td>
</tr>
<tr>
<td>AHP</td>
<td>Loan</td>
<td>$525,000</td>
<td>30</td>
<td>0%</td>
<td>Deferred/Forgivable</td>
</tr>
</tbody>
</table>

The Housing Authority of the City of Oakland (OHA) owns the site and will provide a ground lease to the Partnership, subject to CalHFA’s review and approval. The lease will be wholly prepaid and the term is anticipated to be 65 years. CalHFA’s Regulatory Agreement and Deeds of Trust will be secured on the leasehold interest.

HUD, through the OHA, is providing a HOPE VI loan to the project. HUD will record a Regulatory and Operating Agreement (ROA) on the fee interest. The ROA will restrict 37 units as public housing units and under the terms of the Annual Contribution Contract will provide operating assistance; these are referred to as “ACC Units”. The ROA will be senior in priority to CalHFA’s Regulatory Agreement and Deeds of Trust.

HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

The project is expected to receive a commitment of 16 Section 8 Project-Based Vouchers (PBV) from OHA. The project will use these vouchers for twelve (12) two-bedroom units and four (4) three-bedroom units at 50% area median income (AMI) to increase the affordability of the units. The Agency has required a transition operating reserve of $50,000 to facilitate the transition to non-subsidized rents in the event that the contract is not renewed by HUD, or there is a change in the amount of vouchers issued by HUD.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract. HUD approval of the vouchers, via an Agreement to Enter into a Housing Assistance Payments Contract (AHAP), is required to be in place prior to closing the construction loan. The term of the HAP is required to be ten years to coincide with the CalHFA first mortgage.

The OHA is in the process of issuing a “backstop” commitment for the PBVs. This commitment will be required prior to construction loan closing should the PBVs not be allocated to the project. The commitment is subject to Agency review and approval.
PROJECT DESCRIPTION

Project Location

- The project is located at 928 through 998 66th Avenue in the City of Oakland. The nearest cross streets are 66th Avenue and San Leandro Street.
- The property is located in the Coliseum Central District, approximately one-half mile to the Alameda-Oakland Coliseum and three-quarters mile to Interstate 880.
- Surrounding uses include: light industrial-commercial to the north; future park and Phase I residential buildings to the south; Phase II residential buildings and light industrial-commercial across San Leandro to the west; and a fire station and single-family residential to the east.
- The property is part of the Coliseum Transit Village that will ultimately involve construction of mixed-use (housing and retail) at the existing Coliseum Bart Station, within waking distance of the site.
- The project is the third phase of the HOPE VI Master Plan development that replaces public housing units dating back to the 1940s. The project received a $34.5 million HOPE VI grant and CalHFA has provided financing for all three phases of the Master Development – totaling 367 residential units.
- Surrounding amenities include a public elementary school and a middle school within one-quarter mile of the site, a medical clinic and several grocery stores within a half-mile radius. A 1.3 acre park adjacent to the site will be available to project residents. The City of Oakland is currently planning for an expanded 5.7-acre park in the center of the Master Plan development to serve residents.

Site

- The approximate 2.5 acre rectangular site consists of two parcels.
- The project site was previously used as a park.
- The project has received all entitlements, including General Plan Amendment, Rezone and Planned Unit Development (PUD) approvals. (The project is currently in building plan check.)

Improvements

- The project will consist of 105 family units and one manager’s unit.
- Approximately 15,000 square feet of community space, including social service, recreation (playground and tot lots), and community rooms are provided in the Phase I and II developments. A Joint Use Agreement will be executed to provide all residents in the Master Plan development with shared access to community facilities.
- The buildings will be in two forms: wood-frame construction over concrete podium garage and slab-on-grade wood-framed buildings. The podium is configured as two separate structures with secure pedestrian and visitor access at their convergence.
- The unit mix consists of 13 one-bedroom, 34 two-bedroom, 45 three-bedroom and 14 four-bedroom units. The manager’s unit is two-bedroom.
- The unit’s types are both flats and town homes.
- A total of 106 parking spaces will be provided: 84 in the two garages and remainder (22 spaces) in surface parking.
Off-site Improvements

- Off-sites are being financed separately by the City of Oakland and the Oakland Housing Authority.

Relocation

- A relocation plan was completed prior to start of Phase I. No additional actions are required as part of this project.

MARKET

Market Overview

- The Market Area is defined as the southwestern portion of the City of Oakland, and specifically the area bordered by High Street to the northwest, MacArthur Boulevard to the north, Interstate 580 to the east, 98th Avenue to the south, and Doolittle Drive to the west.
- The Market Area population has increased at a rate of 0.1 percent between 2000 and 2005, slower than the City of Oakland (0.6%) and Alameda County (0.9%).
- The population in the Market Area (estimated at 92,831) is expected to increase slightly in the next two and five year periods.
- The largest age group in the Market Area is persons under age 15 (27.1%), followed by persons between 25 and 34 (14.1%) and ages 35-44 (14.0%). These demographics are also reflected across the City of Oakland statistics.
- Currently there are 12,875 renter households in the Market Area, representing 46.6 percent of all households.
- Over fifty percent (53.8%) of households in the Market Area are very low-income, and approximately twenty percent (20.5%) are low-income.
- In the City of Oakland, nearly 35 percent (34.6%) of renter households are paying more than thirty percent of their income on housing. In the lowest income groups, this is most pronounced with over 70% (72.5%) of households earning less than $20,000 overpaying for shelter.

Housing Supply and Demand

- The overall vacancy rate in the Market Area is 1.0 percent for income-restricted housing and 1.9 percent for market-rate housing. The overall vacancy rate for all rental housing is 1.6 percent and is indicative of an extremely tight market.
- Waiting lists for affordable developments in the Market Area were characterized as extremely long, with several hundred applicants at some properties.
- At the time of market entry in 2007, there will be a demand for 2,641 affordable units in the Market Area with income targeting between 40 and 55 percent of AMI.
- There is demand for 733 one-bedroom; 1,300 two-bedroom, 482 three-bedroom, and 86 four-bedroom units, translating into a capture rate of 2.6 percent.
PROJECT FEASIBILITY

Estimated Lease-up Period

- The estimated lease-up period for the project is four months; the Agency has incorporated a lease-up period of six months in its construction loan term.

ENVIRONMENTAL

- The subject site was previously a public park.
- A Phase I Environmental Assessment report and Phase II studies on the entire Coliseum project site were conducted on March 5, 2004 to evaluate soil and ground water issues. The Department of Toxic Control Substances has reviewed the Removal Action Work Plan (RAW) for the entire property and will have responsibility for issuing clearances for all the specific development phases, as remediation activities are completed.
- URS has reviewed the reports and will issue a clearance report with respect to the scope of the investigation as well as a remediation plan identified in the Phase II report, prior to construction loan closing.
- An updated site-specific Phase I will be required prior to construction loan closing.
- A Geotechnical Report was prepared March 22, 2005. The property exhibits clay and liquefiable sand zones. Mitigation includes imported fill, and reinforced footings and foundations.
- The Borrower has requested an earthquake insurance waiver, and a seismic evaluation is underway. Any design modifications required as a condition of the earthquake insurance waiver will be incorporated in the final plans and specifications approved by CalHFA.

ARTICLE XXXIV

The borrower's attorney has provided an opinion letter stating that the project satisfies the requirements of Article XXXIV, based on the Housing Authority's allocation of their outstanding referendum authority to this project. The opinion is under CalHFA legal review.

DEVELOPMENT TEAM

Borrower and Developers

Creekside Housing Partners, L.P.

The limited partnership is a joint venture between East Bay Asian Local Development Corporation (EBALDC) and the Related Companies. The specific entities that comprise the partnership are Lion Creek III, LLC, a California limited liability company and RelatedOakland Coliseum III Development Co., LLC, as described below.

- **Lion Creek III, LLC** is an affiliation between OHA and EBALDC, a California nonprofit corporation. EBALDC, established in 1975, is the co-developer of Lion Creek Crossings. ELBADC has acquired and rehabilitated several historic properties including Swan's

April 20, 2006
Marketplace, the Asian Resource Center and Madison Park Apartments in Oakland. EBALDC's development activities include affordable housing, mixed-used projects and community facilities. EBALDC has developed 784 units of rental housing, 97 for-sale single family homes and co-housing condominiums, and over 133,000 square feet of retail and office space including two child-care centers. The Oakland Housing Authority will have a limited role in the LLC, as is necessary to meet the HOPE VI/public housing requirements. The Agency has also financed Swan's Market and the recently-approved financing for Seven Directions, both of which were developed by EBALDC.

- Related|Oakland Coliseum III Development Co., LLC is affiliated with the Related Companies of California. The Related Companies was established to focus on the acquisition and development of government-assisted and market-rate multi-family housing. In the last five years, it has developed over 4,739 multifamily units in fifteen projects throughout California, including five projects with tax-exempt bonds proceeds. The Related Companies LP, a privately held New York-based development and financial services company, has developed over 30,000 units of multifamily housing, 3.5 million square feet of office and retail space, and has financed the development of over 110,000 apartments throughout the United States.

Management Agent

Related Management Company

- Related Management Company (RMC) will provide management services to the project. RMC currently manages 114 properties with over 18,500 units of rental housing throughout California, New York, New Jersey, Pennsylvania, Illinois, the East Coast and the southern states. RMC's portfolio consists primarily of affordable housing projects. RMC currently manages ten projects that have been financed by CalHFA with over 2,800 units.

Contractor

Cahill Contractors, Inc. (Proposed)

Cahill Contractors, Inc. (Cahill) is the proposed builder for the project and brings the benefit of experience as the contractor on the first two phases. Incorporated in 1923, Cahill has been building affordable housing projects for the past 14 years and is currently constructing seven affordable housing projects totaling over 1000 units. Cahill will post a 100% performance and payment bond for this project.

Architect

Pyatok Architects, Inc.

Pyatok was established in 1984 by Michael Pyatok, FAIA, and has grown to include five other principals, bringing a combined total of 150 years of architectural and planning experience. Staffed with 30 professionals in its Oakland and Seattle offices, the firm focuses on community planning, affordable housing and higher density, mixed-use developments. It has won over 100 design awards for its projects. Pyatok was responsible for the Master Plan for Lion Creek Crossings and designed Phases I and III.
<table>
<thead>
<tr>
<th>Project Summary</th>
<th>Project Number: 06-003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project:</strong></td>
<td>Lion Creek Crossings</td>
</tr>
<tr>
<td><strong>Location:</strong></td>
<td>66th Avenue &amp; Lion Way</td>
</tr>
<tr>
<td><strong>City:</strong></td>
<td>Oakland</td>
</tr>
<tr>
<td><strong>County:</strong></td>
<td>Alameda</td>
</tr>
<tr>
<td><strong>Zip Code:</strong></td>
<td>94621</td>
</tr>
<tr>
<td><strong>Project Type:</strong></td>
<td>New Construction</td>
</tr>
<tr>
<td><strong>Occupancy:</strong></td>
<td>Family</td>
</tr>
<tr>
<td><strong>Total Units:</strong></td>
<td>106</td>
</tr>
<tr>
<td><strong>Style Units:</strong></td>
<td>Townhomes/Flats</td>
</tr>
<tr>
<td><strong>Elevators:</strong></td>
<td>Yes</td>
</tr>
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<td><strong>Total Parking:</strong></td>
<td>106</td>
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<tr>
<td><strong>Covered:</strong></td>
<td>84</td>
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<table>
<thead>
<tr>
<th>CalHFA Construction Financing</th>
<th>Amount</th>
<th>Rate</th>
<th>Term (Mths)</th>
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<tbody>
<tr>
<td>CalHFA Construction Financing</td>
<td>$22,585,000</td>
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<table>
<thead>
<tr>
<th>Permanent Sources of Funds</th>
<th>Amount</th>
<th>Rate</th>
<th>Years</th>
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<tbody>
<tr>
<td>CalHFA First Mortgage</td>
<td>$3,815,000</td>
<td>5.70%</td>
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<tr>
<td>CalHFA Section 8 Increment</td>
<td>$475,000</td>
<td>5.50%</td>
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</tr>
<tr>
<td>CalHFA FAF</td>
<td>$530,000</td>
<td>3.00%</td>
<td>40</td>
</tr>
<tr>
<td>HCD/MHP</td>
<td>$6,028,478</td>
<td>3.00%</td>
<td>55</td>
</tr>
<tr>
<td>Oakland PHA HOPE VI</td>
<td>$2,273,901</td>
<td>0.00%</td>
<td>55</td>
</tr>
<tr>
<td>City of Oakland - CEDA</td>
<td>$4,600,000</td>
<td>3.00%</td>
<td>55</td>
</tr>
<tr>
<td>AHP</td>
<td>$525,000</td>
<td>0.00%</td>
<td>30</td>
</tr>
<tr>
<td>Income from Operations</td>
<td>$0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GP Equity</td>
<td>$804,284</td>
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<tr>
<td>Deferred Dev. Fee</td>
<td>$717,251</td>
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<td>Tax Credit Equity</td>
<td>$19,284,684</td>
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<table>
<thead>
<tr>
<th>Construction Valuation</th>
<th>Appraisal</th>
<th>Value Upon Completion</th>
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</thead>
<tbody>
<tr>
<td>Investment Value</td>
<td>$34,600,000</td>
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</tr>
<tr>
<td>Loan / Cost</td>
<td>58%</td>
<td></td>
</tr>
<tr>
<td>Loan / Value</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>Appraisal Date</td>
<td>4/6/2006</td>
<td></td>
</tr>
<tr>
<td>Cap Rate</td>
<td>7.50%</td>
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<tr>
<td>Restricted Value</td>
<td>$6,025,000</td>
<td></td>
</tr>
<tr>
<td>Perm. Loan / Cost</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Perm. Loan / Value</td>
<td>80%</td>
<td></td>
</tr>
</tbody>
</table>

**CalHFA Fees and Reserve Requirements**

<table>
<thead>
<tr>
<th>CalHFA Loan Fees</th>
<th>Amount</th>
<th>Required Reserves</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA Perm Loan Fees</td>
<td>$19,075</td>
<td>CalHFA Operating Expense Reserve</td>
<td>$90,446</td>
</tr>
<tr>
<td>CalHFA FAF Loan Fees</td>
<td>$2,650</td>
<td>Section 8 TOR</td>
<td>$50,000</td>
</tr>
<tr>
<td>CalHFA Section 8 Loan Fees</td>
<td>$2,375</td>
<td>New Construction Repl. Reserve</td>
<td>$42,400</td>
</tr>
<tr>
<td>CalHFA Construction Loan Fees</td>
<td>$169,388</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalHFA Inspection Fees</td>
<td>$24,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Construction Loan - Guarantees and Fees**

- Completion Guarantee: LOC 10% Contract or Guaranty 100% Contract
- Contractors Payment Bond: 100% Contract
- Contractors Performance Bond: 100% Contract

Date: 4/14/2006  Senior Staff Date: 4/20/06
## UNIT MIX AND RENT SUMMARY

### Total Unit Mix

<table>
<thead>
<tr>
<th># of Units</th>
<th>Unit Type</th>
<th># of Baths</th>
<th>Average Sq. Ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>1 Bedroom Flat</td>
<td>1</td>
<td>619</td>
</tr>
<tr>
<td>34</td>
<td>2 Bedroom Flat</td>
<td>1</td>
<td>852</td>
</tr>
<tr>
<td>45</td>
<td>2 Bedroom Townhome</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>3 Bedroom Townhome</td>
<td>2</td>
<td>1,132</td>
</tr>
<tr>
<td>5</td>
<td>4 Bedroom Townhome</td>
<td>2</td>
<td>1,374</td>
</tr>
<tr>
<td></td>
<td>5 Bedroom Townhome</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td><strong>106</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Number of Regulated Units By Agency

<table>
<thead>
<tr>
<th>Agency</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>55%</th>
<th>Unrestricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA</td>
<td></td>
<td></td>
<td>21</td>
<td></td>
<td></td>
<td>85</td>
<td>106</td>
</tr>
<tr>
<td>Tax Credits</td>
<td>1</td>
<td>36</td>
<td>25</td>
<td>23</td>
<td>20</td>
<td>1</td>
<td>106</td>
</tr>
<tr>
<td>City of Oakland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>106</td>
</tr>
<tr>
<td>OHA HOPE VI</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>69</td>
<td>106</td>
</tr>
<tr>
<td>MHP</td>
<td></td>
<td>25</td>
<td>23</td>
<td>20</td>
<td>1</td>
<td>1</td>
<td>106</td>
</tr>
<tr>
<td>AHP</td>
<td>85</td>
<td></td>
<td></td>
<td>20</td>
<td></td>
<td>1</td>
<td>106</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Restricted Rents Compared to Average Market Rents

<table>
<thead>
<tr>
<th>Median Income Rent Levels</th>
<th>Units Restricted</th>
<th>Restricted Rents</th>
<th>Avg. Market Rate Rents</th>
<th>Dollars Difference</th>
<th>% of Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Bedroom</td>
<td></td>
<td></td>
<td>$925</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>30%</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>40%</td>
<td>6</td>
<td>$586</td>
<td>$339</td>
<td>63%</td>
<td>63%</td>
</tr>
<tr>
<td>50%</td>
<td>4</td>
<td>$741</td>
<td>$184</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>55%</td>
<td>3</td>
<td>$741</td>
<td>$184</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Two Bedroom</td>
<td></td>
<td></td>
<td>$1,150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>30%</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>40%</td>
<td>11</td>
<td>$704</td>
<td>$446</td>
<td>61%</td>
<td>61%</td>
</tr>
<tr>
<td>50%</td>
<td>12</td>
<td>$890</td>
<td>$260</td>
<td>77%</td>
<td>77%</td>
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<td>10</td>
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<td>20%</td>
<td>28</td>
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<td>$1,073</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>30%</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>40%</td>
<td>6</td>
<td>$587</td>
<td>$468</td>
<td>54%</td>
<td>54%</td>
</tr>
<tr>
<td>50%</td>
<td>6</td>
<td>$1,022</td>
<td>$414</td>
<td>69%</td>
<td>69%</td>
</tr>
<tr>
<td>55%</td>
<td>5</td>
<td>$1,022</td>
<td>$468</td>
<td>69%</td>
<td>69%</td>
</tr>
<tr>
<td>Four Bedroom</td>
<td></td>
<td></td>
<td>$1,650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>9</td>
<td>$417</td>
<td>$1,233</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>30%</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>40%</td>
<td>2</td>
<td>$596</td>
<td>$754</td>
<td>54%</td>
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<td>$514</td>
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<td>55%</td>
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<td>$1,256</td>
<td>$394</td>
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## Sources and Uses of Funds

### SOURCES OF FUNDS:

<table>
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<tr>
<th>Description</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
<th>Total Sources of Funds ($)</th>
<th>Sources per Unit</th>
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<tbody>
<tr>
<td>CalHFA Construction Financing</td>
<td>22,585,000</td>
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<td>3,815,000</td>
<td>35,991</td>
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<td>Construction Only Source 2</td>
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<td>Construction Only Source 3</td>
<td>-</td>
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<td>CalHFA First Mortgage</td>
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<td>CalHFA FAFC</td>
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<tr>
<td>Oakland PHA HOPE VI</td>
<td>2,273,901</td>
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<td>City of Oakland - CEDA</td>
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<td>AHP</td>
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<td>Income from Operations</td>
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<td>GP Equity</td>
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<td>25,654,697</td>
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<th>(Gap)/Surplus</th>
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### USES OF FUNDS:

#### LOAN PAYOFFS & ROLLOVERS:

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<tr>
<td>Construction Loan payoffs</td>
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#### ACQUISITION:

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<td>Demolition</td>
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<td>Legal - Acquisition Related Fees</td>
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<td><strong>Subtotal - Land Cost / Value</strong></td>
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#### REHABILITATION:

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<td>Site Work</td>
<td>-</td>
<td></td>
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<tr>
<td>Rehab to Structures</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>General Requirements</td>
<td>-</td>
<td></td>
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<tr>
<td>Contractors Overhead</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Contractors Profit</td>
<td>-</td>
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<tr>
<td>Contractor's Bond</td>
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<td>General Liability Insurance</td>
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<tr>
<td>Environmental Mitigation Expense</td>
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<td>Other</td>
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<tr>
<td><strong>Total Rehabilitation</strong></td>
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#### RELOCATION EXPENSES:

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<tr>
<td>Relocation Expense</td>
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<tr>
<td>Relocation Compliance Monitoring</td>
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<td><strong>Total Relocation</strong></td>
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### USES OF FUNDS (Cont’d):

<table>
<thead>
<tr>
<th></th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
<th>Total Development Costs</th>
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<tbody>
<tr>
<td></td>
<td>Total Uses of Funds ($)</td>
<td>Cost per Unit per Unit</td>
<td>%</td>
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<tr>
<td><strong>NEW CONSTRUCTION</strong></td>
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<tr>
<td>Site Work &amp; Podium</td>
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<td>General Requirements</td>
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<td>Other</td>
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<td>Other</td>
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<td><strong>Total Engineering &amp; Survey</strong></td>
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<td><strong>CONTRACT / REPORT COSTS</strong></td>
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<td>USES OF FUNDS (Cont'd):</td>
<td>Construction ($)</td>
<td>Permanent ($)</td>
<td>Total Development Costs</td>
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<td>-----------------</td>
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<td>Asbestos / Lead-based Paint Report</td>
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<td>Noise/Acoustical/Traffic Study Report</td>
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<td>Other</td>
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<td>Total Contract Costs</td>
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<td>Hard Cost Contingency</td>
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<td>Capitalized Section 8 Reserve/TOR</td>
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<td>Capitalized Replacement Reserve</td>
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<tr>
<td>Other</td>
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<td><strong>DEVELOPER COSTS</strong></td>
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<tr>
<td>Developer Overhead/Profit (5% Acq.)</td>
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<tr>
<td>Developer Overhead/Profit (NC/Rehab)</td>
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<td>1,635,528</td>
<td>2,500,000</td>
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<td>Syndication Consultant</td>
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<tr>
<td>Broker Fees to a related party</td>
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<tr>
<td>Construction Mgmt. Oversight</td>
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</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Total Developer Fee / Costs</td>
<td>904,472</td>
<td>1,635,528</td>
<td>2,540,000</td>
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<tr>
<td><strong>Total Costs</strong></td>
<td>38,983,902</td>
<td>25,654,697</td>
<td>42,053,599</td>
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## Annual Operating Budget
### Lion Creek Crossings
#### Final Commitment

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<th>Per Unit</th>
<th>% of Total</th>
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<td>Other Income</td>
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<td>$0</td>
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<td><strong>Gross Potential Income (GPI)</strong></td>
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<td><strong>Less:</strong></td>
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<td>Vacancy Loss</td>
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<td><strong>$468,520</strong></td>
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#### Financial Expenses
- CalHFA First Mortgage: $248,704, $2,346
- CalHFA Section 8 Increment: $61,860, $584
- Other Required Debt Service: $22,768, $215

**NET OPERATING INCOME**

<p>|                      | $102,603 | $968    |</p>
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<th>Cash Flow</th>
<th>Final Commitment</th>
<th>CalHFA Project Number: 06-003</th>
<th>Lion Creek Crossings</th>
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<td><strong>VACANCY ASSUMPTIONS</strong></td>
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<td><strong>Affordable (Blended Average)</strong></td>
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<tr>
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# Cash Flow

**CalHFA Project Number:** 06-003

**Lion Creek Crossings**

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<th>Year</th>
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<th>Year 13</th>
<th>Year 14</th>
<th>Year 15</th>
<th>Year 16</th>
<th>Year 17</th>
<th>Year 18</th>
<th>Year 19</th>
<th>Year 20</th>
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</thead>
<tbody>
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<td>1,121,047</td>
<td>1,149,073</td>
<td>1,177,800</td>
<td>1,207,245</td>
<td>1,237,426</td>
<td>1,268,362</td>
<td>1,300,071</td>
<td>1,332,572</td>
<td>1,365,887</td>
<td>1,400,034</td>
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<td>1,268,362</td>
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<td>1,332,572</td>
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</tbody>
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<th>Year</th>
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<td>49,450</td>
<td>50,686</td>
<td>51,953</td>
<td>53,252</td>
<td>54,583</td>
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<tr>
<td>TOTAL OTHER INCOME</td>
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<td>49,450</td>
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<td>51,953</td>
<td>53,252</td>
<td>54,583</td>
<td>55,948</td>
<td>57,347</td>
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<table>
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<th>Year</th>
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<th>Year 12</th>
<th>Year 13</th>
<th>Year 14</th>
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<th>Year 16</th>
<th>Year 17</th>
<th>Year 18</th>
<th>Year 19</th>
<th>Year 20</th>
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<tr>
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<td>54,272</td>
<td>55,629</td>
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<td>TOTAL EXPENSES</td>
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<td>52,948</td>
<td>54,272</td>
<td>55,629</td>
<td>57,019</td>
<td>58,445</td>
<td>59,906</td>
<td>61,404</td>
<td>62,939</td>
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<th>Year 17</th>
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<th>Year 19</th>
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<tr>
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<th>Year 17</th>
<th>Year 18</th>
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<td>2.50%</td>
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## Cash Flow

**CalHFA Project Number: 06-003**

### Lion Creek Crossings

<table>
<thead>
<tr>
<th>RENTAL INCOME</th>
<th>Year 21</th>
<th>Year 22</th>
<th>Year 23</th>
<th>Year 24</th>
<th>Year 25</th>
<th>Year 26</th>
<th>Year 27</th>
<th>Year 28</th>
<th>Year 29</th>
<th>Year 30</th>
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<tbody>
<tr>
<td>Affordable Rents</td>
<td>1,435,035</td>
<td>1,470,911</td>
<td>1,507,683</td>
<td>1,545,375</td>
<td>1,582,040</td>
<td>1,623,610</td>
<td>1,664,200</td>
<td>1,705,805</td>
<td>1,748,450</td>
<td>1,792,162</td>
</tr>
<tr>
<td>Affordable Rent Increase</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Rental Subsidy Increases</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
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</tr>
<tr>
<td>Other</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>TOTAL RENTAL INCOME</strong></td>
<td>1,435,035</td>
<td>1,470,911</td>
<td>1,507,683</td>
<td>1,545,375</td>
<td>1,582,040</td>
<td>1,623,610</td>
<td>1,664,200</td>
<td>1,705,805</td>
<td>1,748,450</td>
<td>1,792,162</td>
</tr>
</tbody>
</table>

### OTHER INCOME

| Laundry | 5,732 | 5,875 | 6,022 | 6,173 | 6,327 | 6,485 | 6,647 | 6,813 | 6,984 | 7,158 |
| Other Income Increase | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Annual Utility Allowance | 58,780 | 60,250 | 61,756 | 63,300 | 64,883 | 66,505 | 68,167 | 69,871 | 71,618 | 73,409 |
| Annual Utility Allowance Increase | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| **TOTAL OTHER INCOME** | 64,512 | 66,125 | 67,778 | 69,473 | 71,210 | 72,990 | 74,815 | 76,685 | 78,602 | 80,567 |

### GROSS POTENTIAL INCOME

| 1,499,547 | 1,537,036 | 1,575,462 | 1,614,848 | 1,655,219 | 1,696,600 | 1,739,015 | 1,782,490 | 1,827,052 | 1,872,729 |

### VACANCY ASSUMPTIONS

| Affordable (Blended Average) | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Rental Subsidy Income | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Other | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Laundry Income | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| **LESS: VACANCY LOSS** | 74,977 | 76,852 | 78,773 | 80,742 | 82,761 | 84,830 | 86,951 | 89,125 | 91,353 | 93,636 |

### EFFECTIVE GROSS INCOME

| 1,424,570 | 1,460,184 | 1,496,689 | 1,534,106 | 1,572,458 | 1,611,770 | 1,652,064 | 1,693,366 | 1,735,700 | 1,779,092 |

### OPERATING EXPENSES

| Expenses | 886,276 | 917,295 | 949,401 | 982,630 | 1,017,022 | 1,052,618 | 1,089,459 | 1,127,590 | 1,167,056 | 1,207,903 |
| Annual Expense Increase | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Taxes and Assessments | 6,773 | 6,908 | 7,047 | 7,188 | 7,351 | 7,478 | 7,627 | 7,780 | 7,936 | 8,094 |
| Annual Tax Increase | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Replacement Reserve | 49,083 | 51,537 | 51,537 | 51,537 | 51,537 | 51,537 | 51,537 | 51,537 | 51,537 | 51,537 |
| Percentage Increase Yearly | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| **TOTAL EXPENSES** | 942,132 | 975,741 | 1,007,985 | 1,041,355 | 1,075,891 | 1,111,633 | 1,151,201 | 1,189,485 | 1,229,106 | 1,270,112 |

### NET OPERATING INCOME

| 482,438 | 484,443 | 488,704 | 492,751 | 496,568 | 500,137 | 500,863 | 503,881 | 506,594 | 508,981 |

### DEBT SERVICE

| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CalHFA - 3rd Mortgage | 22,768 | 22,768 | 22,768 | 22,768 | 22,768 | 22,768 | 22,768 | 22,768 | 22,768 | 22,768 |
| MHP Required Debt Mortgage | 37,920 | 37,920 | 37,920 | 37,920 | 37,920 | 37,920 | 37,920 | 37,920 | 37,920 | 37,920 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

### DEBT COVERAGE RATIO

| 1.56 | 1.57 | 1.58 | 1.59 | 1.60 | 1.62 | 1.62 | 1.63 | 1.64 | 1.65 |
# Cash Flow

<table>
<thead>
<tr>
<th>RENTAL INCOME</th>
<th>Year 31</th>
<th>Year 32</th>
<th>Year 33</th>
<th>Year 34</th>
<th>Year 35</th>
<th>Year 36</th>
<th>Year 37</th>
<th>Year 38</th>
<th>Year 39</th>
<th>Year 40</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Rents</td>
<td>1,836,966</td>
<td>1,882,890</td>
<td>1,929,962</td>
<td>1,978,211</td>
<td>2,027,667</td>
<td>2,078,358</td>
<td>2,130,317</td>
<td>2,183,575</td>
<td>2,238,164</td>
<td>2,294,119</td>
</tr>
<tr>
<td>Affordable Rent Increase</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Rental Subsidies</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<tr>
<td>Rental Subsidy Increases</td>
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<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL RENTAL INCOME</td>
<td>1,836,966</td>
<td>1,882,890</td>
<td>1,929,962</td>
<td>1,978,211</td>
<td>2,027,667</td>
<td>2,078,358</td>
<td>2,130,317</td>
<td>2,183,575</td>
<td>2,238,164</td>
<td>2,294,119</td>
</tr>
</tbody>
</table>

| OTHER INCOME | |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Laundry | 7,337 | 7,521 | 7,709 | 7,901 | 8,099 | 8,301 | 8,509 | 8,722 | 8,940 | 9,163 |
| Other Income Increase | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Annual Utility Allowance | 75,244 | 77,125 | 79,053 | 81,029 | 83,055 | 85,132 | 87,260 | 89,441 | 91,677 | 93,969 |
| Annual Utility Allowance Increase | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| TOTAL OTHER INCOME | 82,581 | 84,646 | 86,762 | 88,931 | 91,154 | 93,433 | 95,769 | 98,163 | 100,617 | 103,133 |

| GROSS POTENTIAL INCOME | |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 1,919,547 | 1,967,536 | 2,016,724 | 2,057,142 | 2,118,821 | 2,171,791 | 2,226,086 | 2,281,738 | 2,338,782 | 2,397,251 |

| VACANCY ASSUMPTIONS | |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Affordable (Blended Average) | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Rental Subsidy Income | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Other | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Laundry Income | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| LESS: VACANCY LOSS | 95,977 | 98,377 | 100,836 | 103,367 | 105,941 | 108,590 | 111,304 | 114,087 | 116,939 | 119,863 |

| EFFECTIVE GROSS INCOME | |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 1,823,570 | 1,869,159 | 1,915,888 | 1,963,785 | 2,012,880 | 2,063,202 | 2,114,782 | 2,167,651 | 2,221,843 | 2,277,389 |

<table>
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<tr>
<th>OPERATING EXPENSES</th>
<th>Expenses</th>
<th>Year 31</th>
<th>Year 32</th>
<th>Year 33</th>
<th>Year 44</th>
<th>Year 45</th>
<th>Year 46</th>
<th>Year 47</th>
<th>Year 48</th>
<th>Year 49</th>
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</thead>
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<tr>
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<td>1,293,936</td>
<td>1,339,224</td>
<td>1,386,096</td>
<td>1,434,610</td>
<td>1,484,821</td>
<td>1,536,790</td>
<td>1,590,578</td>
<td>1,646,248</td>
<td>1,703,866</td>
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<tr>
<td>Taxes and Assessments</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
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<tr>
<td>Annual Tax Increase</td>
<td>8,256</td>
<td>8,421</td>
<td>8,590</td>
<td>8,762</td>
<td>8,937</td>
<td>9,115</td>
<td>9,298</td>
<td>9,484</td>
<td>9,673</td>
<td>9,867</td>
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<tr>
<td>Replacement Reserve</td>
<td>54,114</td>
<td>56,820</td>
<td>56,820</td>
<td>56,820</td>
<td>56,820</td>
<td>56,820</td>
<td>56,820</td>
<td>56,820</td>
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<tr>
<td>Percentage Increase Yearly</td>
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<td>1,359,177</td>
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<td>1,500,367</td>
<td>1,550,757</td>
<td>1,605,749</td>
<td>1,659,722</td>
<td>1,715,582</td>
<td>1,773,394</td>
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| NET OPERATING INCOME | |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|

<table>
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<th></th>
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<td>CalHFA - 3rd Mortgage</td>
<td>22,768</td>
<td>22,768</td>
<td>22,768</td>
<td>22,768</td>
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<td>0</td>
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<tr>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

| DEBT COVERAGE RATIO | 1.65 | 1.65 | 1.65 | 1.66 | 1.66 | 1.79 | 1.78 | 1.77 | 1.77 | 1.76 |
RESOLUTION 06-12

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Creekside Housing Partners, L.P., a California limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in Oakland, Alameda County, California to be known as Lion Creek Crossings (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on March 13, 2006, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to his/her recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

<table>
<thead>
<tr>
<th>PROJECT NUMBER</th>
<th>DEVELOPMENT NAME/ LOCALITY</th>
<th>NUMBER OF UNITS</th>
<th>MORTGAGE AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>06-003-C/N</td>
<td>Lion Creek Crossings, Oakland, Alameda County</td>
<td>106</td>
<td>$22,585,000: 1st Mortgage (Cons)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$3,815,000: Perm. 1st Mortgage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$475,000: 2nd Mortgage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$530,000: 3rd Mortgage (FAF)</td>
</tr>
</tbody>
</table>
2. The Executive Director may modify the terms and conditions of the loans or
loans as described in the Staff Report, provided that major modifications, as defined below,
must be submitted to this Board for approval. "Major modifications" as used herein means
modifications which either (i) increase the total amount of any loans made pursuant to the
Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive
Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily
Programs of the Agency, adversely change the financial or public purpose aspects of the final
commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 06-12 adopted at a duly
constituted meeting of the Board of the Agency held on May 11, 2006 at Burbank, California.

ATTEST:

Secretary
MEMORANDUM

To: CalHFA Board of Directors

From: Theresa A. Parker, Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Date: April 25, 2006

Subject: CalHFA Five-Year Business Plan -- Resolution 06-13

I offer, for your consideration, the 14th annual CalHFA Five-Year Business Plan (2006/07 to 2010/11) and a resolution for its adoption. This Plan, unlike the previous 13 Plans, has constrained goals and objectives for all three program areas (Homeownership, Mortgage Insurance and Multifamily Rental). The staff of the California Housing Finance Agency are among the most talented and professional people I have worked with in state government; however, vacancies at the program director level have left me with little choice but to recommend a less ambitious plan than we would all like to be offering. The problem, as I have articulated in the past, is the lack of salary compensation necessary to recruit and retain qualified directors to run our program areas.

The Plan’s focus for the immediate future will be to continue our operation processes with the goal of utilizing more of today’s technology. While our computer systems are adequate, we must constantly challenge ourselves to improve them and maintain pace with our private sector partners. We intend to streamline our reservation and loan application processes, while moving to an all-electronic processing environment within the Agency.

While my presentation to the Board in March proposed a more aggressive Business Plan, this revised plan is consistent with the Board’s philosophies as received throughout the past year. The Plan will be utilized as a road map for staff and for the Board to measure our performance as we carry out the Agency’s mission to “finance below-market rate loans to create safe, decent, and affordable rental housing and to assist first-time homebuyers in achieving the dream of homeownership.”

The updated plan proposes total activity of $11.5 billion of housing-related economic activity over the next five years. This activity includes over $6.5 billion of new home mortgages, $3.6 billion of mortgage insurance activity, and $700 million in multifamily lending. The new construction that will be stimulated over this five-year period will aid the State’s economic growth and help support the creation of over 63,000 new jobs.

In addition to the activities outlined in the plan, new housing opportunities can be expected to present themselves throughout the five-year plan period. As in previous years, the staff intends to respond dynamically (within resource constraints) to these market opportunities as they emerge and bring them to the Board at the appropriate time.
Please join me recognizing the incredible job that the CalHFA staff has accomplished over the last several years – historic lending programs in Homeownership and Mortgage insurance, extremely complex deals in Multifamily like the Bay Area Housing Plan, and behind the scenes work of Financing, Marketing, Legal, Asset Management, Administration, Information Technology, Fiscal Services, Special Lending and Loan Servicing.

Your approval of Resolution 06-13, adopting the 14th CalHFA Business Plan is requested.
FIVE-YEAR BUSINESS PLAN
FISCAL YEARS
2006/2007 TO 2010/2011

Cal HFA
Affordable Housing is our Business
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
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<td>I. EXECUTIVE SUMMARY</td>
<td>1 - 2</td>
</tr>
<tr>
<td>II. INTRODUCTION</td>
<td>3 - 8</td>
</tr>
<tr>
<td>IV. DIVISIONAL SUMMARIES</td>
<td>12 - 31</td>
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<tr>
<td>A. HOMEOWNERSHIP PROGRAMS</td>
<td>12 – 16</td>
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<td>B. MORTGAGE INSURANCE</td>
<td>17 - 18</td>
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<td>C. MULTIFAMILY PROGRAMS</td>
<td>19 – 21</td>
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<td>D. SPECIAL LENDING PROGRAMS</td>
<td>22 - 24</td>
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<tr>
<td>E. SUPPORT DIVISIONS</td>
<td>25 - 31</td>
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<tr>
<td>V. FINANCIAL SUMMARY</td>
<td>32 - 41</td>
</tr>
</tbody>
</table>
I. EXECUTIVE SUMMARY

2006/07 Business Plan Overview:

CalHFA's 2006/07 Business Plan proposes total activity of $11.5 billion during the five-year period. Homeownership, multifamily and special lending programs are estimated to be $7.9 billion with loan insurance activity contributing an additional $3.6 billion. The previous five-year plan proposed a total of $10.9 billion.

Homeownership. Estimated levels of first mortgage lending for homeownership are planned to be $1.3 billion for 2006/07 and remain constant during the remainder of the five-year plan. With continued funding from Prop. 46, the total commitment for down payment assistance programs is planned to be $83 million for 2006/07. Down payment assistance levels for future periods are dependant on successful recycling of principal prepayments and new sources of funding. The new five-year target for homeownership is $6.9 billion, which includes a program for self-help builders' assistance. Sufficient tax-exempt issuance authority is available for issuance of bonds to attain the $1.3 billion goal in the coming fiscal year. Continued use of variable rate bonds and interest rate swaps should result in attractive interest rates for the varied first mortgage loan programs. Over the life of the five-year plan, however, additional annual MRB allocation for our first mortgage program will be required.

Mortgage Insurance. Total mortgage insurance activity is proposed at $729 million for the 2006/07 fiscal year and $3.6 billion for the five-year period. This compares to the 2005/06 goal of $485 million and projected activity of $2.4 billion. The change in activity is a direct result of borrowers' increased use of conventionally insured first mortgage loan products on agency homeownership loans due, in part, to rising home prices in California and FHA loan limits. CalHFA's homeownership loan portfolio has historically been predominately FHA insured, however the mix of mortgage insurance has changed significantly over the past few years. CalHFA first mortgages with FHA insurance were 84% of total originations in calendar year 2003, 65% in calendar year 2004 and 27% in calendar year 2005. This shift has created new opportunities for the Agency's insurance fund to collaborate with the homeownership division when non-agency mortgage insurance activity has slowed tremendously.

Multifamily. The 2006/07 goal for multifamily lending is $232 million, with a total target of $811 million for the five-year period. Projected permanent loan activity and construction lending is expected to remain constant throughout the business plan period. Lending activity in support of the Bay Area Housing Plan will continue during the 2006/07 fiscal year with $75 million in new activity expected. Meantime, preservation lending programs and housing for the homeless and other special needs populations is anticipated to produce $13 million of loan activity in 2006/07. With an aging portfolio of multifamily properties, increased emphasis will be placed on programs that offer assistance to address deferred maintenance and capital improvements.

Special Lending Programs. The 2006/07 goal for special lending is $41 million, with a total target of $170 million for the five-year period. This plan proposes to continue partnering with localities by committing $15 million in each year of the plan to the HELP program. In addition, the Residential Development Loan Program is expected to produce $65 million of lending activity over the five-year plan and $5 million of activity is anticipated annually under the Habitat for Humanity program.
New construction activity financed under the five-year plan is estimated to be over $1.6 billion in Homeownership financing and $232 million in new affordable multifamily rental units. This will support the creation of approximately 61,500 jobs*. Additionally, there will be a significant economic impact resulting from CalHFA’s financing of resale homes and multifamily acquisition/rehabilitation projects, as well as from the Agency’s mortgage insurance activities.

*Source for multiplier: Construction Industry Research Board
II. INTRODUCTION

Plan Purpose:

The purpose of this document is to provide the Board of Directors of the California Housing Finance Agency (CalHFA) with a proposed business plan for the next five fiscal years. This plan is intended to enhance the Board’s ability to address some of the important affordable housing needs of California by instituting a comprehensive framework for Board decision-making, by providing guidance to staff, and by setting forth benchmarks against which to measure the success of programs and the effective use of operating resources. As such, the particular housing finance and loan insurance programs recommended in the plan were formulated in an effort to increase homeownership opportunities and the multifamily affordable housing stock, maximize CalHFA’s restricted resources, and stimulate the housing-related economy of California.

Background:

The Agency was created in 1975 as the state’s affordable housing bank. The federal and state tax exemption available on state-issued debt enables housing finance capital to be provided at below-market interest rates. CalHFA is empowered to issue debt obligations for a wide variety of housing-related programs, and it is also authorized through its insurance program to provide mortgage insurance.

CalHFA’s primary purpose and its mission, according to state law, is to meet the housing needs of persons and families of low- to moderate-income.

CalHFA’s programs consist of four major areas: homeownership loan programs, mortgage insurance, multifamily loan programs (for rental properties) and special lending programs.

Assumptions Underlying Plan Goals:

It must be recognized that the levels of activity projected for each program are based on assumptions regarding key factors over which CalHFA does not, in many cases, exercise control. The following are some of the key assumptions on which the projections are based:

- Receipt of sufficient state allocation of private activity bond issuance authority.
- No repeal of the Federal Ten Year Rule.
- Continued investor demand for CalHFA bonds.
- Over 56% of loans purchased by Homeownership continue to be conventional loans requiring CalHFA mortgage insurance.
- Timely and successful new partnerships and programs.
- Obtain adequate salary levels to recruit and retain qualified individuals to perform at the level necessary to maintain our bond ratings.
- Ongoing demand from first-time homebuyers and rental housing sponsors.
- Borrower interest in newly created or redesigned single family loan products that may reduce the use of CalHFA Housing Assistance Program (CHAP) and High Cost Area Home Purchase Assistance Program (HiCAP) subordinate loans.
- A reasonably stable interest rate market.
- State and local agency financial participation.
- Offer Housing Assistance Trust (HAT) funds within available resources.
- Continued commitment of Government Sponsored Enterprise's (GSE) to first-time homebuyers and affordable housing.

The Agency's programs and its organization are flexible enough to allow CalHFA to respond to changing circumstances in revenue projections, programs, and economic conditions, and to accommodate any unanticipated adjustment of priorities.

2005/06 Business Plan - Progress to Date as of March 2006:

The table below shows an estimate of actual production for CalHFA lending and insurance programs in comparison with fiscal 2005/06 goals.

<table>
<thead>
<tr>
<th>2005/2006 GOAL (Millions of dollars)</th>
<th>ESTIMATED ACTUAL</th>
<th>PERCENTAGE OF GOAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homeownership Programs</td>
<td>$1,294</td>
<td>$1,374</td>
</tr>
<tr>
<td>Insurance Programs</td>
<td>$ 485</td>
<td>$ 751</td>
</tr>
<tr>
<td>Multifamily Programs</td>
<td>$ 360</td>
<td>$ 238</td>
</tr>
<tr>
<td>Special Lending Programs</td>
<td>$ 104</td>
<td>$ 41</td>
</tr>
</tbody>
</table>

Homeownership lending volume is projected to be almost $1.4 billion and exceed the fiscal year's goal of $1.2 billion in first mortgage lending activity.

Insurance activity is projected at $751 million in fiscal 2005/06. This is 151% of the $496 million achieved in 2004/05 and is due to the increase in homeownership conventional loan volume.

Multifamily lending commitments are projected to total $246 million for fiscal year 2005/06 compared to 2004/05's production of $366 million.

Special Lending volume is expected to be $41 million in fiscal year 2005/06, which is $1 million higher than the actual current year volume.

2006/07 Business Plan Overview:

CalHFA's 2006/07 Business Plan proposes total activity of $11.5 billion during the five-year period. Homeownership, multifamily and special lending programs are estimated to be $7.9 billion with loan insurance activity contributing an additional $3.6 billion. The previous five-year plan proposed a total of $10.9 billion.

Homeownership. Estimated levels of first mortgage lending for homeownership are planned to be $1.3 billion for 2006/07 and remain constant during the remainder of the five-year plan. With continued funding from Prop. 46, the total commitment for down payment assistance programs is planned to be $80 million for 2006/07. Down payment assistance levels for future periods are dependant on successful recycling of principal prepayments and new sources of funding. The new five-year target for homeownership is $6.9 billion, which
includes a program for self-help builders' assistance. Sufficient tax-exempt issuance authority is available for issuance of bonds to attain the $1.3 billion goal in the coming fiscal year. Continued use of variable rate bonds and interest rate swaps should result in attractive interest rates for the varied first mortgage loan programs. Over the life of the five-year plan, however, additional annual MRB allocation for our first mortgage program will be required.

**Mortgage Insurance.** Total mortgage insurance activity is proposed at $729 million for the 2006/07 fiscal year and $3.6 billion for the five-year period. This compares to the 2005/06 goal of $485 million and projected activity of $2.4 billion. The change in activity is a direct result of borrowers' increased use of conventionally insured first mortgage loan products on agency homeownership loans due, in part, to rising home prices in California and FHA loan limits. CalHFA's homeownership loan portfolio has historically been predominately FHA insured, however the mix of mortgage insurance has changed significantly over the past few years. CalHFA first mortgages with FHA insurance were 84% of total originations in calendar year 2003, 65% in calendar year 2004 and 27% in calendar year 2005. This shift has created new opportunities for the Agency's insurance fund to collaborate with the homeownership division when non-agency mortgage insurance activity has slowed tremendously.

**Multifamily.** The 2006/07 goal for multifamily lending is $232 million, with a total target of $811 million for the five-year period. The goal has been reduced from the prior year plan due to uncertainty over staffing resources. Projected permanent loan activity and construction lending is expected to remain constant throughout the business plan period. Lending activity in support of the Bay Area Housing Plan will continue during the 2006/07 fiscal year with $75 million in new activity expected. Meantime, preservation lending programs and housing for the homeless and other special needs populations is anticipated to produce $13 million of loan activity in 2006/07. With an aging portfolio of multifamily properties, increased emphasis will be placed on programs that offer assistance to address deferred maintenance and capital improvements.

**Special Lending Programs.** The 2006/07 goal for special lending is $41 million, with a total target of $170 million for the five-year period. This plan proposes to continue partnering with localities by committing $15 million in each year of the plan to the HELP program. In addition, the Residential Development Loan Program is expected to produce $65 million of lending activity over the five-year plan and $5 million of activity is anticipated annually under the Habitat for Humanity program.

CalHFA's 2006/07 Business Plan proposes a total of $7.9 billion for loan programs and $3.6 billion in insurance activity for a total of $11.5 billion for the 2006/07 to 2010/11 five-year period. This is a 6% increase when compared to the $10.9 billion proposed in the previous five-year plan.

**Organization of Plan:**

This introduction is followed by the sections described below:

- **Table I - Planned and Actual Summary** displays the goals and actual results for fiscal 2004/05 and the goals and current projections for fiscal 2005/06.
- **Table II - Plan Summary** shows goals by program for each of the years in the plan period 2006/07 to 2010/11.
- **Divisional Summaries** include lists of accomplishments and descriptions of how the plan will be carried out by the CalHFA divisions. These are followed by short descriptions of how each of the support divisions of CalHFA will assist the programs divisions in meeting the objectives of the plan.

- **Financial Summary** discusses in detail the Agency's equity position as of September 30, 2005, the many restrictions on the Agency's reserves, management of the Agency's financial risks, and the projected fiscal effect of the plan over the five-year plan period.
<table>
<thead>
<tr>
<th>TABLE I - PLANNED AND ACTUAL SUMMARY</th>
<th>FY 2004/05</th>
<th>FY 2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HOMEOWNERSHIP PROGRAMS</strong>(a)</td>
<td>Planned</td>
<td>Actual</td>
</tr>
<tr>
<td>Homeownership 1st Loans</td>
<td>$1,250.0</td>
<td>$1,308.0</td>
</tr>
<tr>
<td>Homeownership Down Pmt. Assist. (CHAP)</td>
<td>27.0</td>
<td>35.2</td>
</tr>
<tr>
<td>High Cost Area 2nd Loans (HICAP)</td>
<td>32.5</td>
<td>48.0</td>
</tr>
<tr>
<td>Self-Help Builder Assistance (SHBAP)</td>
<td>2.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Silent Second Mortgages**(b)**</td>
<td>5.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Prop. 46 Down Payment Assistance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homebuyers Down Pmt. Assist. (CHDAP)</td>
<td>19.5</td>
<td>32.2</td>
</tr>
<tr>
<td>Homeownership In Revital Areas (HIRAP)</td>
<td>0.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Extra Credit Teacher Program (ECTP)</td>
<td>6.6</td>
<td>4.6</td>
</tr>
<tr>
<td>School Facility Fee (SFF)</td>
<td>7.4</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total Homeownership Programs</strong></td>
<td>$1,350.8</td>
<td>$1,435.9</td>
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<tr>
<td><strong>INSURANCE SERVICES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalHFA</td>
<td>$180.0</td>
<td>$473.9</td>
</tr>
<tr>
<td>CalPERS</td>
<td>5.0</td>
<td>0.7</td>
</tr>
<tr>
<td>CalSTRS</td>
<td>35.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Lease Purchase</td>
<td>10.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Community Affordable Housing</td>
<td>30.0</td>
<td>8.6</td>
</tr>
<tr>
<td><strong>Total Insurance Programs</strong></td>
<td>$200.0</td>
<td>$495.5</td>
</tr>
<tr>
<td><strong>MULTIFAMILY PROGRAMS</strong>(c)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent Loans</td>
<td>$160.0</td>
<td>$73.4</td>
</tr>
<tr>
<td>Construction Loans (CalHFA &amp; LTL)</td>
<td>100.0</td>
<td>192.1</td>
</tr>
<tr>
<td>Preservation Acquisition</td>
<td>35.0</td>
<td>100.6</td>
</tr>
<tr>
<td>Preservation Opportunity Program (Prop. 46)</td>
<td>15.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Section 8 Portfolio Rehab Loans</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal - Multifamily</strong></td>
<td>$313.0</td>
<td>$372.1</td>
</tr>
<tr>
<td><strong>SPECIAL LENDING PROGRAMS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multifamily HAT Funds</td>
<td>5.0</td>
<td>6.0</td>
</tr>
<tr>
<td>HELP Program</td>
<td>20.0</td>
<td>21.0</td>
</tr>
<tr>
<td>Small Loan Program</td>
<td>3.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Locality Initiatives Program</td>
<td>10.0</td>
<td>0.0</td>
</tr>
<tr>
<td>**Subtotal - Special Lending Programs</td>
<td>38.0</td>
<td>27.0</td>
</tr>
<tr>
<td><strong>TOTAL Multifamily Programs</strong></td>
<td>$351.0</td>
<td>$399.1</td>
</tr>
<tr>
<td><strong>TOTAL CalHFA PROGRAMS</strong></td>
<td>$1,951.8</td>
<td>$2,330.6</td>
</tr>
</tbody>
</table>

(a) Homeownership loans purchased.
(b) In support of Agency Insurance Programs.
(c) Multifamily loans committed.
### TABLE II - PLAN SUMMARY

(In millions)

<table>
<thead>
<tr>
<th>HOMEOWNERSHIP PROGRAMS (a)</th>
<th>2006/07</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
<th>5 Yr Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homeownership First Mortgages</td>
<td>$1,300.0</td>
<td>$1,300.0</td>
<td>$1,300.0</td>
<td>$1,300.0</td>
<td>$1,300.0</td>
<td>$6,500.0</td>
</tr>
<tr>
<td>Agency Funded Down Payment Assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalHFA Housing Assistance Program (CHAP) (b)</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
<td>32.5</td>
</tr>
<tr>
<td>High Cost Area Home Purch. Assist. Prog. (HiCAP) (b)</td>
<td>28.5</td>
<td>28.5</td>
<td>28.5</td>
<td>28.5</td>
<td>28.5</td>
<td>142.5</td>
</tr>
<tr>
<td>Self-Help Builder Assistance (SHBAP) (b)</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Prop. 46 Down Payment Assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA Homebuyer’s Downpmnt Assist. Prog. (CHDAP) (b)</td>
<td>29.3</td>
<td>29.3</td>
<td>29.3</td>
<td>29.3</td>
<td>29.3</td>
<td>146.5</td>
</tr>
<tr>
<td>Homeownership In Revital. Areas Prog. (HIRAP)</td>
<td>2.3</td>
<td>1.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Extra Credit Teacher Home Purchase Prog. (ECTP)</td>
<td>6.6</td>
<td>6.6</td>
<td>1.4</td>
<td>0.0</td>
<td>0.0</td>
<td>14.6</td>
</tr>
<tr>
<td>School Facility Fee Down Pay. Assist. Prog. (SFF)</td>
<td>4.3</td>
<td>4.5</td>
<td>4.8</td>
<td>5.0</td>
<td>5.3</td>
<td>23.9</td>
</tr>
<tr>
<td>Total Homeownership Programs</td>
<td>$1,380.0</td>
<td>$1,379.4</td>
<td>$1,373.0</td>
<td>$1,371.8</td>
<td>$1,372.1</td>
<td>$6,876.3</td>
</tr>
</tbody>
</table>

| INSURANCE SERVICES | | | | | | |
| CalHFA | $728.0 | $728.0 | $728.0 | $728.0 | $728.0 | $3,640.0 |
| Non-CalHFA | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 5.0 |
| Total Insurance Programs | $729.0 | $729.0 | $729.0 | $729.0 | $729.0 | $3,645.0 |

| MULTIFAMILY PROGRAMS (d) | | | | | | |
| Permanent Loans | $40.0 | $40.0 | $40.0 | $40.0 | $40.0 | $200.0 |
| Construction Loans | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 500.0 |
| Bay Area Housing Plan | 75.0 | 0.0 | 0.0 | 0.0 | 0.0 | 75.0 |
| Preservation Acquisition & Preservation Opportunity (e) | 3.0 | 3.0 | 0.0 | 0.0 | 0.0 | 6.0 |
| Homeless/Special Needs Program (b) | 10.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.0 |
| Asset Management Portfolio Assistance (b) | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 20.0 |
| Total Multifamily Programs | $232.0 | $147.0 | $144.0 | $144.0 | $144.0 | $811.0 |

| SPECIAL LENDING PROGRAMS (d) | | | | | | |
| Locality Programs | | | | | | |
| Housing Enabled through Local Partnerships (HELP) (b) | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 75.0 |
| Residential Develop. Lending Prog. for Local. (RDL) (b) | 20.0 | 20.0 | 25.0 | 0.0 | 0.0 | 65.0 |
| Small Business / Predevelopment Loans (b) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 5.0 |
| Habitat for Humanity Loan Purchase Program (b) | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 25.0 |
| Total Special Lending Programs | $41.0 | $41.0 | $46.0 | $21.0 | $21.0 | $170.0 |

| TOTAL CalHFA PROGRAMS | | | | | | |
| $2,382.0 | $2,296.4 | $2,292.0 | $2,265.8 | $2,266.1 | $11,502.3 |

(a) Production total represent anticipated Homeownership loans purchased.
(b) Funded from Agency’s Housing Assistance Trust.
(c) CHDAP - assumes funds will be available from recycling, or new sources of funding.
(d) Production totals represent anticipated Multifamily and Special Lending Programs final commitments.
(e) 30% of these commitments are funded from Prop. 46 funds.
(f) Funded from Prop. 46 funds.
III. ACCOMPLISHMENTS – FISCAL YEAR 2005/06

Homeownership Overall:

- Projected to reach and exceed our fiscal 2005/2006 goal of $1.2 billion in first mortgage loans while at the same time significantly reducing the dependency on the use of HAT resources to meet our goals.
- Continued to develop processes and procedures for streamlining homeownership loan processing.
- CHAP second mortgage loans are projected to decline to $6.7 million due to exclusively being used behind FHA insured first mortgages.
- As of March 31, 2006, 1,315 HiCAP second loans have been purchased totaling $22.5 million representing 69% of the fiscal year 2005/06 goal.
- Maintained the annual production goal for the mutual Self-Help Builder Assistance Program (SHBAP) development loans. As of March 31, 2006, the Agency purchased 18 SHBAP first mortgages totaling $2.7 million during the fiscal year 2005/06.
- Expanded to over 240 localities and nonprofits currently approved to partner with CalHFA in its Affordable Housing Partnership Program (AHPP).
- Continued to provide a significant amount of the Agency’s loan assistance to low-income borrowers. Through March 31, 2006, 43% of all CalHFA first-time homebuyer loans were made to borrowers with incomes of 80% or less of the area median income.
- Sustained high levels of minority first-time homebuyers, with over 56% of all loans being made to minority borrowers as of March 31, 2006.

Homeownership Proposition 46 Funds:

- Continued the California Homebuyer's Downpayment Assistance Program (CHDAP). Purchased a total of 2,786 loans totaling $23 million as of March 31, 2006.
- As of March 31, 2006, purchased 105 loans totaling $1.9 million in the Homeownership In Revitalization Areas Program (HIRAP). Approved for participation in the program are eleven nonprofit agencies, which also provide homeownership counseling.
- Purchased 214 Extra Credit Teacher Program (ECTP) loans totaling $2.8 million as of March 31, 2006.
- Continued the School Facility Fee Down Payment Assistance Program (SFF). As of March 31, 2006, 690 disbursements had been made for a total of $2.4 million.
**Mortgage Insurance**

- New mortgage insurance written projected to exceed plan by $251 million.
- Reduced depth of coverage from 50% to 35% on Agency products requiring private mortgage insurance.
- Introduced HomeOpeners\textsuperscript{SM}, a Mortgage Protection Program, designed to provide unemployment benefits to qualified borrowers.
- Worked with Homeownership to increase LTV from 97% to 100% on 30-year conventional loans.
- Worked with Homeownership to research, develop and introduce the *interest only* PLUS\textsuperscript{SM} program.

**Multifamily:**

- Projected to achieve 70% of the current fiscal year's core production goal by processing loan commitments equaling $238 million.
- Projected to close 40 multifamily loans for approximately $400 million, representing 3,600 units of housing. This dollar volume represents the highest ever total for Multifamily, exceeding last year's volume by 56% and matching the previous record in fiscal year 2004/05 for the number of projects closed.
- Continued to focus on the construction-lending program to complement our successful permanent loan program. There are currently twenty-four construction projects totaling $312 million under construction.
- Bay Area Housing Plan is approved for $45 million in special financing for housing for developmentally disabled.
- CalHFA funded three special needs projects this fiscal year, providing 119 units in permanent supportive housing. Total financing committed to these projects is $34.7 million.
- CalHFA joined with the Department of Housing and Community Development (HCD) and the Department of Mental Health (DMH) to implement the Governor's Homeless Initiative. Under this initiative, CalHFA provides construction financing for projects serving the chronically homeless with HCD providing permanent financing and the DMH providing funding for support services.
- Selected and began creation and implementation of a new Multifamily database and integrated underwriting system called ProLink. ProLink includes a document management system and is expected to be launched within the Agency in mid fiscal year 2006/07.

**Special Lending:**

- Continued the popular and successful Housing Enabled by Local Partnerships (HELP) program. The two allocation rounds for the current year were fully subscribed at the $20 million level, representing 21 commitments to an equal number of localities. The program has achieved notable success with allocations being awarded to 98 localities representing 150 active commitments. These commitments
will produce over 17,800 units of affordable housing in both homeownership and multifamily developments.

- The Habitat for Humanity Loan Purchase Program was initiated this year. Commitments totaling just over $3 million have been issued to purchase 43 first mortgages from 7 Habitat affiliates.
- Parameters for the Residential Development Loan Program have been developed in conjunction with focus groups comprised of participants from local government housing, development and lending industries. The first round of funding is expected to be announced by the end of the current fiscal year.
- Issued 3 pre-development loan commitments under the Small Business Loan Program for an aggregate loan volume of $600,000.

"HomeOpeners" is a service mark of GE Mortgage Holdings, LLC.
IV. DIVISIONAL SUMMARIES

A. HOMEOWNERSHIP PROGRAMS:

The role of Homeownership Programs is to increase homeownership opportunities to Californians by making financing available to low and moderate-income first-time homebuyers.

Objectives:

In fiscal year 2006/07, CalHFA will continue to pursue activities designed to further the following mission objectives:

Providing first-time homebuyers with below market rate mortgage financing; focusing on low-income homebuyers; assisting teachers, administrators, other eligible credentialed staff, and classified employees working in high priority schools to buy their first home; distributing loans equitably throughout the state; targeting loans to extremely high housing cost areas of the state; promoting loan products to expand the supply of affordable new construction housing; continuing a loan product to assist low-income disabled homebuyers, promoting efforts to identify affordable housing needs, exploring opportunities, developing solutions, assembling resources, and partnering to implement solutions.

Strategies:

The planned strategies to accomplish the objectives, and in particular to maximize the public benefit to low-income borrowers, are listed below:

- Providing long-term, fixed-rate first mortgages below conventional market interest rates.
- Providing the lowest rates for low-income borrowers.
- Supporting very-low and low-income homeownership through the provision of down payment assistance and reduced interest rates in the Affordable Housing Partnership Program (AHPP), the CalHFA Housing Assistance Program (CHAP), the California Homebuyer’s Downpayment Assistance Program (CHDAP), the Homeownership In Revitalization Areas Program (HIRAP), the School Facility Fee Down Payment Assistance Program (SFF), and the Self-Help Builder Assistance Program (SHBAP).
- Targeting high cost urban areas in need of affordable financing by providing down payment assistance for low- and moderate-income homebuyers through the HiCAP.
- Providing down payment assistance for teachers, administrators, other eligible credentialed staff and classified employees through the Extra Credit Teacher Home Purchase Program (ECTP).
- Continuing the availability of the 100% LTV 35-year term loan with an initial 5 year interest only payment feature (*interest only PLUS<sup>SM</sup>).*
- Continuing the HiCAP that assists homebuyers in extreme high cost areas of the state. Continuing to utilize a statewide network of lending institutions to provide consumer access to CalHFA loan products
- Implementing a 100% LTV 40-year term fully amortizing loan to provide more affordable financing.
• Implementing a Lead Generation Program with active loan officers to generate new loan volume.
• Developing a standard subordinated debt format to facilitate additional private and nonprofit funding sources.
• Encouraging additional CalHFA approved lenders to offer the interest only PLUS SM loan and 40-year loans.
• Providing outreach, technical assistance, and training support to lenders and other industry organizations.
• Partnering with localities and nonprofit housing organizations to assist low-income borrowers.
• Updating sales price limits biannually consistent with federal law in order to assist the maximum number of first-time homebuyers.
• Utilizing marketing and media resources to generate awareness for our programs and participating in special events.
• Evaluating new loan products to meet market changes and customer demand (Fannie Mae/HFA Branded Product).

Program Performance and Strategy Implementation:

Following is a list of the major Homeownership programs, with the applicable fiscal year and five-year goals. A brief performance history against the current fiscal year goals for the listed programs is provided.

<table>
<thead>
<tr>
<th>Program</th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Mortgage Lending</td>
<td>$1.2 billion</td>
<td>$1.3 billion</td>
<td>$1.3 billion</td>
<td>$6.5 billion</td>
</tr>
</tbody>
</table>

The current fiscal year’s Business Plan includes a first mortgage purchase goal of $1.20 billion, which is projected to be met by year-end. As of March 31, 2006, the Agency has purchased loans totaling $1.02 billion in the current fiscal year, of which 77% were for resale homes and 23% for newly constructed homes.

The five-year goal was amended to increase the annual lending goal to $1.30 billion for the next five years starting with the 2006/07 fiscal year. The $1.30 billion annual goal should be attainable in the coming fiscal year subject to market interest rates remaining stable. Additional private activity bond allocation will be necessary to fully fund the five-year $6.5 billion goal.

First mortgage loan products currently offered include a standard 30-year fixed rate conventional and governmental loans from 97% to 100% LTV, a new 100% LTV 40-year fixed rate conventional loan, and an existing 100% LTV conventional loan with a five-year interest only period followed by a 30-year amortizing period, both at the same fixed interest rate known as interest only PLUS SM.

<table>
<thead>
<tr>
<th>Program</th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA Housing Assistance</td>
<td>$13.3 million</td>
<td>$6.7 million</td>
<td>$6.5 million</td>
<td>$32.5 million</td>
</tr>
<tr>
<td>Program (CHAP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
A $13.3 million 2005/06 goal was included in the current Five-Year Business Plan for the highly successful CHAP. With CHAP, the financing for home purchases is comprised of an FHA insured 30-year fixed rate first mortgage, and a 3% CHAP deferred payment second mortgage. The deferred second mortgage reduces borrower down payment requirements without increasing monthly loan payments. This product is used statewide and has been instrumental in assisting with the Agency’s equitable distribution of loan funds objectives.

Given the limited availability of HAT funds, the Agency proposes to further restrict the CHAP program in the fiscal year 2006/07 budget to $6.5 million in order to preserve resources. The recent addition of 100% LTV conventional loan products is anticipated to offset the impact the reduction in funding will have on the program and Homeownership loan volume.

As of March 31, 2006, there have been 760 CHAP second mortgages purchased in fiscal year 2005/06 for a total of $5.4 million.

- **High Cost Area Home Purchase Assistance Program (HiCAP)**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>2006/07 Plan Goal</th>
<th>Five Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 32.4 million</td>
<td>$ 28.6 million</td>
<td>$142.5 million</td>
</tr>
</tbody>
</table>

This program provides financing in the form of a deferred payment second mortgage for down payment assistance to create new opportunities for low- to moderate-income homebuyers to purchase housing in counties with extreme housing costs, very high job demand, affordability problem exists and where the Agency’s Homeownership Program has underserved the county.

As of March 31, 2006, the Agency has purchased 1,315 second mortgages for a total of $22.5 million, with an additional $6.1 million anticipated during fiscal year 2005/06. CalHFA has also purchased 1,295 related first mortgage loans totaling $386.9 million.

As with the CHAP program, HiCAP was restructured within the available funding resource to keep the program viable into the future and to support the first mortgage-lending program. On May 12, 2005, the maximum loan amount was reduced from $25,000 to $15,000. Further changes will be considered in order to best serve high-cost housing areas.

- **Self-Help Builder Assistance Program (SHBAP)**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 2.5 million</td>
<td>$ 2.5 million</td>
<td>$12.5 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Projected</th>
<th>$ 0.7 million</th>
<th></th>
</tr>
</thead>
</table>

The Agency continues to commit $2.5 million of HAT funds annually to the SHBAP program which provides development loans to nonprofit self-help developers. This program provides loans for site acquisition, development and/or construction financing to nonprofit self-help housing sponsors, and permanent loans to borrowers. Due to the continuing increase in development costs and the need of the nonprofits for affordable financing, the maximum loan amount has been increased to $750,000 from $500,000 and may be increased up to $1 million for top tier nonprofits.
Families contribute their labor ("sweat equity") in lieu of a cash down payment under the mutual self-help approach.

**Homeownership Proposition 46 Funds:**

Approved by the California voters in November 2002, Prop. 46 provided $194.75 million for downpayment and/or closing cost assistance to four programs to be administered by CalHFA's Homeownership Division. The funds are financing the following programs and the original amounts are listed below:

- California Homebuyer’s Downpayment Assistance Program $111.6 million
- Homeownership In Revitalization Areas Program $11.9 million
- Extra Credit Teacher Home Purchase Program $23.8 million
- School Facility Fee Down Payment Assistance Program $47.5 million

The descriptions of each of the Prop.46 programs are provided below:

- **California Homebuyer’s Downpayment Assistance Program (CHDAP)**
  - 2005/06 Plan Goal: $31.7 million
    - With CalHFA Firsts: $24.0 million
    - With Non-CalHFA Firsts: $5.3 million
    - Projected: $29.3 million
  - 2006/07 Plan Goal: $29.3 million
    - With CalHFA Firsts: $24.0 million
    - With Non-CalHFA Firsts: $5.3 million
  - Five-Year Goal: $146.5 million
    - With CalHFA Firsts: $120.0 million
    - With Non-CalHFA Firsts: $26.5 million

The CHDAP program, funded by Prop. 46, provides a deferred payment, 3% simple interest, junior mortgage of up to 3% of the purchase price or appraised value, whichever is less. Used for down payment and closing cost assistance, it may be used in conjunction with a CalHFA or non-CalHFA first mortgage.

As of March 31, 2006, the Agency has purchased 2,786 CHDAP junior mortgages for a total of $23 million, with an additional $6.3 million anticipated during fiscal year 2005/06. CalHFA had also purchased 2,246 related first mortgage loans totaling $568.8 million.

A total of $111.6 million was made available for loans from Prop. 46 for CHDAP as of January 2003. A $29.3 million allocation is included in the Plan for fiscal year 2006/07.

- **Homeownership In Revitalization Areas (HIRAP)**
  - 2005/06 Plan Goal: $2.8 million
  - Projected: $2.3 million
  - 2006/07 Plan Goal: $2.3 million
  - Five-Year Goal: $3.8 million

As a set-aside of CHDAP within Prop. 46, $11.6 million was made available for HIRAP. This program is for down payment and closing cost assistance to lower-income first-time homeowners.
homebuyers. CalHFA-approved nonprofit organizations must document that the low-income homebuyers are purchasing a residence in a community revitalization area targeted by the nonprofit organization, and have received counseling from the nonprofit organization.

On January 1, 2005, pursuant to 2003 Legislation, CalHFA's Executive Director instructed all funds remaining in HIRAP be made available at an amount not to exceed 6% of the sales price until the reversion date of May 5, 2005, to CHDAP.

As of March 31, 2006, the Agency has purchased 105 loans for $1.9 million, with an additional $0.4 million anticipated during the remainder of fiscal year 2005/06. CalHFA also purchased related 73 first mortgage loans totaling $17.6 million as of March 31, 2006.

- **Extra Credit Teacher Home Purchase Program (ECTP)**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006/07 Plan Goal</td>
<td>$6.6 million</td>
<td>$3.5 million</td>
</tr>
<tr>
<td>Five-Year Goal</td>
<td>$14.6 million</td>
<td></td>
</tr>
</tbody>
</table>

The ECTP, funded by Prop. 46, is intended to help high priority schools recruit and retain credentialed teachers, administrators, staff and classified employees. This program offers a combination of a CalHFA first mortgage at a reduced interest rate, along with a junior loan for down payment assistance. The junior loan amount is limited to the greater of $7,500 or 3% of the sales price in CalHFA-defined statewide, non-high cost counties, or the greater of $15,000 or 3% of the sales price in CalHFA-defined high cost counties.

As of March 31, 2006, the Agency has purchased 214 ECTP junior mortgages for a total of $2.8 million, with an additional $0.7 million anticipated during fiscal year 2005/06.

- **School Facility Fee Down Payment Assistance Program (SFF)**

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006/07 Plan Goal</td>
<td>$4.7 million</td>
<td>$4.1 million</td>
</tr>
<tr>
<td>Five-Year Goal</td>
<td>$23.9 million</td>
<td></td>
</tr>
</tbody>
</table>

The SFF, funded by Prop. 46, offers conditional grants that can be used for down payment assistance or closing costs by eligible homebuyers. The grants are based on the amount of the School Facility Fee paid by the developer for each particular new construction unit. A total of $47.5 million was made available for grants for down payment and closing cost assistance from Prop. 46. A remaining total of $23.9 million is included in the Five-Year Business Plan for grants, to be divided equally between the two SFF programs: 1) “Economically Distressed Area” and 2) “First-Time Homebuyer, Moderate Income Limits.” As of March 31, 2006, 690 grants have been disbursed for a total of $2.4 million with an additional $1.7 million anticipated during fiscal year 2005/06.
B. MORTGAGE INSURANCE SERVICES

Objectives:

Provide below-market mortgage insurance coverage to allow originating lenders and the Agency to provide loans enabling first-time California homebuyers to purchase decent, safe and affordable housing by insuring new conventional CalHFA loans.

Strategies:

Improve business processes to increase production capacity:

- Streamline or augment internal business processes through use of technology and enhanced infrastructure and facility to ensure that production can be handled efficiently.
- Revise the divisional policy and procedures manual to ensure compatibility with changes in business processes.
- Increase outreach to customers to define needs and process improvements in operational areas.
- Upgrade customer access to the CalHFA portal via the website and computer technology.

Develop business opportunities for products to support production goals:

- Develop communication strategies to better inform customers and stakeholders of new business processes, new products, upgrades of business practices, and access to technology.
- Support Homeownership and Mortgage Insurance Services goals through increased participation in industry events, media outlets, and lender training to promote CalHFA loan products and HomeOpeners® a Mortgage Protection Program.

Program Performance and Strategy Implementation:

- California Housing Finance Agency (CalHFA) Conventional Loans

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>2006/07 Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 460 million</td>
<td>$ 728 million</td>
<td>$3.640 billion</td>
</tr>
<tr>
<td>Projected</td>
<td>$ 735 million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In 2005, changes in mortgage insurance coverage resulted in a lowering of mortgage insurance premiums to borrowers. At the same time, CalHFA allowed 100% LTV on its standard 30-year loan product. Additionally, the introduction of the interest only PLUS program in the spring of 2005 proved to be a huge success and was instrumental in the Agency's mortgage insurance fund meeting its fiscal year 2005/06 production goal by

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1 HomeOpeners is a registered trademark of Genworth Mortgage Holding, LLC.
February 2006. The *interest only* PLUS™ product represents about 40% of Agency conventional loan production. With the introduction of the 40-year fixed rate conventional loan in March 2006, the Agency will have three active conventional loan programs to offer during fiscal year 2006/07. This will allow the Agency to provide more options to first-time homebuyers while providing Mortgage Insurance Services increased business opportunities.

- **Non-CalHFA Conventional Loans**

<table>
<thead>
<tr>
<th>2005/06 Plan Goal:</th>
<th>$25.0 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected:</td>
<td>$ 1.2 million</td>
</tr>
<tr>
<td>2006/07 Goal:</td>
<td>$ 1.0 million</td>
</tr>
<tr>
<td>Five-Year Goal:</td>
<td>$ 5.0 million</td>
</tr>
</tbody>
</table>

These programs serve borrowers who normally do not qualify for CalHFA Homeownership loan programs due to MRB imposed requirements. For example, the Agency's Mortgage Insurance fund supports Fannie Mae's My Community Mortgage products as well as Freddie Mac's Affordable Gold products which are designed for low- to moderate-income borrowers and for underserved markets. While national competition for these products is aggressive, discussions will continue toward expanding products with Fannie Mae and Freddie Mac. The goal reflects existing product expectations.
C. MULTIFAMILY PROGRAMS

The role of Multifamily Programs is to finance rental housing, for very low-, low- and moderate-income households.

Objectives:

The Division’s primary objective is to create and preserve affordable rental housing throughout the state through direct lending activities.

Strategies:

Multifamily Programs focus is primarily on lending to affordable housing sponsors for new construction, acquisition/rehabilitation, and rehabilitation projects. The strategies undertaken to reach the programs’ goals include the following activities:

- Introduce a 30-year fully amortized permanent loan, with a prepayment option after year 15, to match the financial needs of Low Income Housing Tax Credit developments.
- Continue to provide highly competitive construction and bridge loans; the latter repaid through tax credit equity installments.
- Facilitate the preservation and rehabilitation of at-risk housing through interim financing to assist in the timely acquisition of assisted projects at risk of losing their long-term affordability.
- Collaborate with state and local housing, social service, and mental health agencies to construct affordable supportive housing for special needs populations, including the chronically homeless and those with mental disabilities. Maintain discounted interest rates to increase affordability for these populations.

Program Performance and Strategy Implementation:

Following is a list of the major Multifamily programs with the applicable fiscal year and five-year goals. Also provided is a brief performance history against the current fiscal year goals for the listed programs.

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal</th>
<th>Projected:</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction and Permanent Loans</td>
<td>$280 million</td>
<td>$186 million</td>
<td>$140 million</td>
<td>$700 million</td>
</tr>
</tbody>
</table>

In fiscal year 2005/06, multifamily activity focused on closing $400 million in tax-exempt financing, matching the record-breaking activity in fiscal year 2004/05.

Multifamily lending will introduce a new permanent loan product next fiscal year. The new product presents a financing product for affordable housing developers that is unmatched in the conventional market.
In fiscal year 2006/07, the estimated breakdown between construction and permanent loans is $100 million and $40 million, respectively. The comparable figures for this fiscal year are $120 million and $66 million, respectively. Linked to CalHFA permanent loans, the construction loan program for tax-exempt bond projects provides low cost, variable rate funds to reduce construction period interest. In this fiscal year, most of the loans in this program also contain financing from the Department of Housing and Community Development's Multifamily Housing Program (MHP) and the Low Income Housing Tax Credit (4 percent program). CalHFA's construction loans are generally three or more times the amount of its permanent financing due to the limited debt payment capability of projects with deeply affordable rents.

- **Bay Area Housing Plan**

<table>
<thead>
<tr>
<th>2005/06 Plan Goal:</th>
<th>$50 million</th>
<th>2006/07 Plan Goal:</th>
<th>$75 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected:</td>
<td>$45 million</td>
<td>Five-Year Goal:</td>
<td>$75 million</td>
</tr>
</tbody>
</table>

The Bay Area Housing Plan provides funding for approximately 70 group homes in the San Francisco Bay area as replacement housing for the residents of the Agnews Facility for the severely developmentally disabled. The Agency will supply permanent financing for these homes based on guaranteed lease payments from the State of California to regional service providers. Bank of America is providing acquisition financing, including the necessary rehabilitation of the housing as required for the severely disabled residents. The project is distinguished by achieving an unprecedented collaboration among state and regional agencies, local nonprofit service providers, and private lenders.

- **Preservation Acquisition and Preservation Opportunity Program**

<table>
<thead>
<tr>
<th>2005/06 Plan Goal:</th>
<th>$23.0 million</th>
<th>2006/07 Plan Goal:</th>
<th>$3.0 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected:</td>
<td>$9.2 million</td>
<td>Five-Year Goal:</td>
<td>$6.0 million</td>
</tr>
</tbody>
</table>

Prop. 46 authorized the Preservation Opportunity Program, a revolving fund for the acquisition and preservation of affordable housing projects at risk of losing their affordability restrictions. These bond funds are intended to finance approximately 30% of the project's acquisition costs, with CalHFA lending the balance. Loans made from the two sources are intended to be repaid with permanent financing and be recycled for new acquisitions. Fiscal year 2005/06 saw limited activity in this program due to the low level of preservation financing in general and the limited availability of attractively priced financing.

Projected activity for the coming fiscal year is $3 million for CalHFA financing and $2 million for the Prop. 46 funds. The $5 million in Prop. 46 funds are available for this program until fiscal year 2008, when they revert back to HCD's Multifamily Housing Program.

- **Homeless and Special Needs Programs**

<table>
<thead>
<tr>
<th>2006/07 Plan Goal</th>
<th>$10 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five-Year Goal:</td>
<td>$10 million</td>
</tr>
</tbody>
</table>

Special Needs financing in fiscal year 2006/07 will be carried out primarily through loans to nonprofit intermediary lenders who finance predevelopment and acquisition costs for permanent supportive housing. CalHFA expects that a $10 million capital contribution will be
made to one or more nonprofit intermediaries in fiscal year 2006/07. The program will be established as a revolving fund. The nonprofit intermediary lenders use CalHFA's low cost funds to re-lend funds to local nonprofit housing developers constructing supportive housing. The source of funds for this program is the Housing Assistance Trust.

The Special Needs component of multifamily direct lending also provides construction, bridge and permanent financing for projects with populations that are at-risk and in need of supportive services, including the chronic homeless and those with disabilities. The program utilizes Housing Assistance Trust funds to subsidize the interest rate to a level as low as 1%. Generally, the tenants have incomes at 35% of median income, necessitating the subsidized interest rate to make the projects economically viable. Because of the need for supportive services financing and the complexity of structuring the transactions, special needs housing projects have lengthy development time frames.

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Plan Goal:</th>
<th>Projected:</th>
<th>2006/07 Plan Goal:</th>
<th>$4 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Management Portfolio Assistance</td>
<td>$3 million</td>
<td>$3 million</td>
<td>$4 million</td>
<td>$20 million</td>
</tr>
</tbody>
</table>

Asset Management Portfolio Assistance, managed by CalHFA's Asset Management Division, will be used for rehabilitation of 80/20 (non-Section 8) properties in the Agency's portfolio. Funds are used on projects where Physical Needs Assessments indicate that existing repair and replacement reserves are not sufficient. The source of funding for this activity is CalHFA's Housing Assistance Trust.
D. SPECIAL LENDING PROGRAMS

Special Lending Programs is a component of the Multifamily Programs Division. The role of Special Lending Programs is to administer unique lending activities which benefit low- and moderate-income families.

Objectives:

Special Lending Programs objective is to develop innovative financing for affordable housing with housing sponsors in markets which are not addressed through conventional CalHFA financing.

Strategies:

Focus primarily on products that facilitate affordable housing through partnerships with other housing sponsors. Strategies include:

- Provide moderate term loans to local governments for their affordable housing efforts.
- Initiate short-term site acquisition and/or predevelopment loan programs and use local governments to facilitate affordable infill for-sale housing.
- Provide equity venture capital loans for very small for-profit and nonprofit developers to enable affordable developments that would not occur without the capital infusion.
- Provide capitalization to California affiliates of Habitat for Humanity for additional affordable housing developments by purchasing and servicing qualified loans.

Program Performance and Strategy Implementation:

Following is a list of the major Special Lending programs with the applicable fiscal year and five-year goals. Also provided is a brief performance history against the current fiscal year goals for the listed programs.

<table>
<thead>
<tr>
<th>Program</th>
<th>2005/06 Plan Goal</th>
<th>Projected</th>
<th>2006/07 Plan Goal</th>
<th>Five-Year Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Enabled through Local Partnerships (HELP)</td>
<td>$20 million</td>
<td>$20 million</td>
<td>$15 million</td>
<td>$75 million</td>
</tr>
</tbody>
</table>

Introduced eight years ago, the successful HELP Program provides loans to local government entities to carry out their affordable housing priorities. In previous years, loans were made at 3% interest for a 10-year term, with the maximum loan being $2 million. HELP represents both an investment in additional homeownership and rental housing throughout California as well as an investment in new and productive working relationships with local governments, housing authorities, and redevelopment agencies.

As of the end of this fiscal year, CaHFA will have committed $148 million to 98 different localities, assisting in the production of more than 17,800 affordable housing units. Ninety-one percent of the HELP loans have been invested nearly equally in the new construction and rehabilitation of affordable rental housing. The balance of funds have supported ownership housing.
For the 2006/07 fiscal year, the proposed HELP program funding level is $15 million, to be paired with the new ownership housing program for localities described below. HELP loans will carry a 3.5 percent interest rate beginning in the 2006/07 fiscal year and will be limited to a maximum of $1.5 million.

- **Residential Development Lending Program for Localities**

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan Goal</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005/06</td>
<td>$75 million</td>
<td>$10 million</td>
</tr>
<tr>
<td>2006/07</td>
<td>$20 million</td>
<td></td>
</tr>
<tr>
<td>Five-Year</td>
<td>$65 million</td>
<td></td>
</tr>
</tbody>
</table>

With $75 million in Prop. 46 funds, the new Residential Development Lending Program (RDLP) provides funds to local government entities for the acquisition and related predevelopment costs of ownership housing in urban infill areas. The program, which will be launched this fiscal year, uses underutilized monies from Prop. 46, initially designated for mortgage insurance, and couples its assistance with CalHFA’s down payment assistance programs. The funds will leverage local public funds and conventional private financing used in the construction of ownership housing by local housing developers. $10 million is anticipated to be announced by the end of 2005/06, with the balance of $65 million to be committed in 2006/07 through 2008/09.

Offered through a competitive process similar to HELP, RDLP loans will be made at a 3 percent interest rate for a maximum 4-year term. The maximum loan will be $4 million to assist primarily in the acquisition of land for ownership housing, a portion of which will be affordable to low- and moderate-income households.

- **Small Business Loan Program**

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan Goal</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005/06</td>
<td>$3.0 million</td>
<td>$0.6 million</td>
</tr>
<tr>
<td>2006/07</td>
<td>$1.0 million</td>
<td></td>
</tr>
<tr>
<td>Five-Year</td>
<td>$5.0 million</td>
<td></td>
</tr>
</tbody>
</table>

The Small Business Loan Program lends funds to small developers for up to one-half of predevelopment expenses or $300,000, whichever is less. These funds help fill a critical gap in carrying out the necessary due diligence and preliminary architectural and engineering costs necessary to initiate projects. In previous years, loans were made at a 3.0% interest rate. Beginning in 2006/07, loans will carry a 3.5% interest rate. The loans are repaid no later than permanent financing. The source of funds for this program is the Housing Assistance Trust.

Two small developers of affordable housing received Small Business Development loans in this fiscal year. Funding for subsequent fiscal years, projected at $1 million, takes into account the resources of the new Residential Development Loan Program, which funds higher levels of acquisition and related predevelopment expenses for affordable ownership projects, through local government participation.

- **Habitat for Humanity Loan Purchase Program**

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan Goal</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005/06</td>
<td>$5.0 million</td>
<td>$3.0 million</td>
</tr>
<tr>
<td>2006/07</td>
<td>$5.0 million</td>
<td></td>
</tr>
<tr>
<td>Five-Year</td>
<td>$25.0 million</td>
<td></td>
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</table>
CalHFA launched its Habitat for Humanity Loan Purchase Program in 2006, issuing commitments to spend $3.1 million of qualified loans previously originated by Habitat organizations. The funds are invested to yield an approximate 4% rate to CalHFA. Initial demand for the program was somewhat lower than anticipated, but a sustainable program demand of $5 million per year is expected. The program provides for CalHFA servicing and flexibility in re-purchase options. Its purpose is to infuse capital for the growth of Habitat housing production. The source of funds for this program is the Housing Assistance Trust.
D. SUPPORT DIVISIONS

INTRODUCTION

There are eight Support Divisions: Administration, Information Technology, Financing, Fiscal Services, Legislation, Marketing, Multifamily Asset Management, and the Office of General Counsel. These divisions' roles are to assist the operating divisions in achieving the goals outlined in CalHFA's Five-Year Business Plan. These divisions also provide the day-to-day support services for our operating divisions to conceive, facilitate and execute the strategies needed for meeting customer, stakeholder and employee objectives.

The following are the individual support divisions' objectives, strategies and implementation considerations for the 2006/07 Five-Year Business Plan:

1. ADMINISTRATION

Objectives:

- Continue to recruit new staff to fill open positions.
- Using best practices as a guide, continue updating internal procedural manuals and handbooks.
- Determine best option and location for consolidating the two Sacramento locations in one location.

Strategies:

- Work within state government to update and upgrade positions.
- Continue to advertise for, interview, and select quality hires.
- Assemble a team consisting of a development consultant and a broker to fully vet all options for the Agency's eventual move.

Implementation Considerations:

The Administrative Division supports the operational needs of the Agency through both human resources and business services and has spent a considerable amount of time working toward the completion of several long term projects. Much of our equipment and furniture has been systematically upgraded. With that accomplished and no further major tenant improvements anticipated, we can redirect our attention to updating our internal infrastructure.

2. INFORMATION TECHNOLOGY (IT)

Objectives:

- Continue to provide professional, responsive IT services to daily Agency operations and ensure the legacy application systems and infrastructure continue to adequately support the Agency business processes.
• Manage collaborative project efforts to define, develop and implement appropriate technological applications and infrastructure to enhance the business processes of Homeownership loan origination, Multifamily loan origination, Financing bond and investment tracking and Fiscal Services cash receipts and disbursements, mortgage reconciliation and general ledger accounting.

• Initiate and/or complete the implementation of various support systems, including data/document management, workload management, and change management.

• Extend the use, enhance the capabilities and expand the information offerings of the Agency’s Internet and intranet web sites to improve communications and operations.

Strategies:

• Manage the Agency’s IT Governance structure to ensure IT and business strategic alignment and effective IT priority setting and resource allocation.

• Maintain an IT hardware and software infrastructure that is responsive to current business operations and future IT initiatives.

• Research technologies available in the marketplace and those being used most effectively by the housing finance industry and make recommendations on their potential for the Agency.

• Ensure the IT Division has the necessary organizational infrastructure, including staff skill sets, support tools, policies and practices, disaster recovery strategies, and measurement and management tools to support current operations and respond to planned IT initiatives.

• Aggressively pursue the use of technologies – such as web-based applications – that support the Agency’s strategic business initiatives.

Implementation Considerations:

The Division of Information Technology has had an outstanding record of maintaining the existing applications and technology infrastructure in support of the business operations of the Agency. However, many of the current applications and supporting infrastructure are at capacity and very dated and activities have been initiated to update them. By updating technology, the Agency has the opportunity to transform operations and improve responsiveness to changing business needs and business partner and consumer requirements.

Because of the dated technology and the complexity of the technical environment the IT Division is at a critical point in its development. As the Agency continues to grow and works to maintain its competitiveness within the housing finance industry, the IT Division has reached a point where a reactive approach to business is no longer sufficient to meet business needs. The Division has, with the support of Agency Senior Management, embraced a more mature, proactive approach to doing business and adopted a more strategic perspective and role within the Agency.

The Division has engaged in several activities to facilitate the shift to the more proactive approach. First, the Division is continuously reviewing organizational and technical infrastructures to identify opportunities to improve current support services and to prepare the Division to be responsive to current and future IT initiatives. Next, tools for better
tracking, communication and accountability are being implemented. Finally, structures and processes to more effectively align the Agency’s strategic business plans with IT strategic and tactical planning are being defined and employed. These initiatives will lay the foundation for the IT Division to position itself as a leader in innovation for the Agency, advocating technical solutions that advance Agency goals.

3. FINANCING DIVISION

Objectives:

- Arrange the issuance of bonds.
- Identify other sources of capital.
- Support over $7.9 billion of loan production for the Homeownership, Multifamily and Special Lending units.

Strategies:

- Lower the cost of the Agency’s debt through the issuance of variable rate bonds.
- Monitor the fixed income markets and the relationships of tax-exempt rates to taxable rates for opportunities to issue fixed interest rate housing bonds.
- Utilize the swap market to synthetically fix or cap the rates to hedge our interest rate risk.
- Maximize the refunding of previous years’ single family tax-exempt authority.
- Recycle prepayments from existing single family 30-year mortgages.
- Issue bonds as necessary.
- Finance over $700 million of bond-funded multifamily loans over the next five years.
- Pooling loans into large financings to obtain economies of scale.
- Pledge the Agency’s general obligation
- Consider incorporate economic refundings of older multifamily bonds into future transactions.
- Partner with public agencies pension funds, and Government Sponsored Enterprises (GSEs) such as Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, who support our financings by acting as investors or by providing services such as standby bond purchase agreements.

Implementation Considerations:

During fiscal year 2005/06 to date, CalHFA has already issued or contracted to issue $1.14 billion of bonds and plans to contract for another $100 million before the end of the fiscal year. Of the $1.14 billion of bonds issued, 89% were issued as variable rate, $604 million was swapped to fixed rates. As of March 31st, total variable rate debt is approximately $6.4 billion, some 87% of the Agency’s total indebtedness of $7.3 billion. Bonds swapped to fixed rates total $4.6 billion.
At the end of the five-year planning period, it is possible that the Agency will have more than $12 billion of bonds outstanding, and as much as 90% may be variable rate, most of which will be swapped to a fixed rate.

4. Fiscal Services

Objectives:

- Provide superior financial management and reporting services to Agency management. Improvements are planned to integrate systems and improve the timeliness of financial reporting systems.
- Support the affordable housing mission of the Agency by servicing a wide variety of Agency loan products, including homeownership first trust deed loans, homeownership down payment assistance loans, HELP loans, loans secured by multifamily rental developments and many other specialty loan products.
- Recruit and train staff to achieve a high quality workforce.

Strategies:

- Embark on a large-scale automation project to upgrade both the hardware and software of the accounting system. The goal will be to have a more integrated system to produce more timely reports and be more responsive to today’s business needs.
- Provide the highest level of customer service possible to borrowers whose loans are being serviced by the Agency.
- Search for, recruit the highest quality staff, and develop managers and supervisors to take the division to the next level.

Implementation Considerations:

The Fiscal Services Division will continue to support CalHFA activities through the receipt and disbursement of financial resources, the safeguarding of assets, the servicing of loans and by recording and reporting on financial matters of the Agency in accordance with professional standards in meeting all federal, state and indenture requirements. Additionally, the Division will continue to coordinate the annual financial audits of the Housing Finance Fund and the Housing Loan Insurance Fund. The Division is also prepared to assume additional loan servicing responsibilities as needed.

5. Legislation

Objectives:

- Advocate Agency programs and positions to Administration, California Legislative and Congressional members and appropriate stakeholder groups.
Strategies:

- Work with Agency Legal and Program staffs and interested stakeholder groups to identify needed statutory changes.
- Develop and advocate the Agency’s policy position on state and federal legislation.
- Promote the Agency before Congress, the State Legislature and the Governor’s Office.

Implementation Considerations:

The focus of the Legislative Division is to ensure that legislation which fosters CalHFA’s primary purpose of providing financing to meet the housing needs of low and moderate-income families in California is monitored, analyzed and enacted into law. Additionally, the Agency continuously reviews existing statutes to determine what changes, if any, will be required to meet the Agency’s long-term business plan objectives. This year, the Legislative Division will continue to work with Legislators and affected stakeholders to increase the amount of funding available to programs that increase the stock of housing available to low and moderate-income households, both on the rental and homeownership side of the equation.

6. MARKETING DIVISION

Objectives:

- Provide awareness of CalHFA as a primary source of below market interest rate funding for California’s affordable housing market needs.
- Promote the usage of CalHFA programs to expand affordable housing opportunities for Californians throughout the state.

Strategies:

- Continue media driven outreach efforts to increase awareness for our Agency programs.
- Develop marketing initiatives that maximize the mortgage loan and insurance volume for Homeownership, and maximize loan volume for the new Multifamily and Special Lending Programs.
- Utilize the most efficient and effective means to reach business partner and stakeholder target audiences.
- Use product and revised program initiatives as the platform for marketing and outreach efforts.
- Focus Homeownership marketing efforts in localities that have the greatest affordable housing inventory (e.g., housing at or below our sales price limits).
- Provide outreach support for Prop. 46 programs and projects.

Implementation Considerations:

The marketing team will focus its efforts on increasing the awareness and understanding of the CalHFA brand and programs with its customers, business partners, stakeholders and employees concerned with the need for affordable housing in California. We will maintain our outreach activities to promote key CalHFA Homeownership, Mortgage Insurance, and
Multifamily programs. The 2006/07 Marketing plan will provide support to the Divisional program goals outlined in the Business Plan. Additionally, marketing support will be provided for key Prop. 46 programs to help ensure the timely use of the funds.

7. MULTIFAMILY ASSET MANAGEMENT

Objectives:

- Protect the Agency's loans through financial monitoring, physical inspections, and the use of technology to forecast financial performance and manage risk.
- Provide financial and management compliance monitoring on behalf of HUD.
- Protect CalHFA's rights, the owner/agent's rights and tenants' rights through the interpretation of the Regulatory Agreement, the HUD Manual 4350.3, other HUD directives and state laws.

Strategies:

- Negotiate for increased affordability in existing projects when opportunities arise to lower their loan rates.
- Assign staff to work closely with lower performing assets to develop and resolve financial and physical deficiencies to maintain long-term viability of asset.
- Complete sale of five REO (real estate owned) properties.
- Assess financial viability of recapitalizing existing Section 8 agency portfolio.

Implementation Considerations:

The Asset Management Division is committed to supporting the Agency's Business Plan to ensure the financial, physical and public purpose goals of the Agency throughout the loan term.

The agency’s Section 8 portfolio is now over 25 years old. Most of the Section 8 loans are 30- or 40-year term with matching subsidy contracts terms. Years of flat rents with no HUD-approved rent increases has left many properties undercapitalized and in need of physical repairs. At-risk properties have been identified and the division is working closely with Section 8 borrowers to locate financial sources to correct the deficiencies. The agency has a good record of seeking and obtaining HUD approval to "give back" earned surplus funds generated by individual projects to correct deficiencies for the post-1980 projects where earned surplus generated is project specific. For the pre-1980 projects, where the agency has control of the earned surplus funds in a general pool, a low rate loan program has been implemented.

The agency is working to assess the feasibility of providing a preservation loan program for in-house Section 8 portfolio owners who wish to recapitalize their properties and remain in the affordable housing arena for a new loan term. The 30-year contracts begin expiring en masse in 2013. All Section 8 owners have the right to sell or convert their properties to market rate once their 30- or 40-year commitment to HUD and CalHFA ends.

The division continues to seek ways to use technology to improve financial forecasting and trending techniques to better manage risk.
8. OFFICE OF GENERAL COUNSEL (OGC)

Objectives:

- To provide legal services to the Board, the Executive Director and the Agency equal in scope and quality to those available to private businesses.
- To fully utilize legal technology to provide state of the art support capability.
- To fully develop both in-house and outside legal resources to meet the complex business demands of the Agency.

Strategies:

- Assign attorneys to work closely with client divisions within the Agency, both to develop and maintain client relationships, and to obtain the specialized business knowledge needed to deal with each division's unique legal needs.
- Continue to utilize i-Manage document management software, PDF document conversion software, and document imaging technology. OGC is exploring web based document acquisition and editing to allow interested parties to work collaboratively in complex transactions. OGC has also developed, with the IT Division, software to manage file location and related database applications.
- Provide up-to-date legal resources by developing in-house legal talent and maintaining relationships with specialized outside counsel.

Implementation Considerations:

OGC recognizes the need to continuously examine and improve the delivery of legal services, to keep pace with the real estate finance industry and the state's delivery of affordable housing to Californians.
V. FINANCIAL SUMMARY

The purpose of the Financial Summary is threefold: to present the Agency's equity position as of September 30, 2005; to describe the projected effect on the Agency's equity of the assumptions made in the Agency's Five-Year Business Plan, and to provide a detailed description of the factors influencing restriction of the Agency's equity.

**DISCUSSION OF EQUITY:**

"Equity" is synonymous with "net assets". It is arrived at by applying the Agency's assets against its liabilities at any given point in time. As of September 30, 2005, the Agency had total assets of $9.5 billion, comprised primarily of mortgage loans receivable and total liabilities against those assets of $7.9 billion is comprised primarily of bond indebtedness. The residual restricted assets of $1.2 billion in the Housing Finance Fund and $59 million in the Housing Loan Insurance Fund represent the Agency's equity position at September 30, 2005.

Although the amount of the Agency's total equity is readily identifiable, its liquidity is not. The majority of the assets underlying the equity are in the form of mortgage loans receivable, and as the following discussion will illustrate, most of the Agency's equity is allocated, or restricted in the form of reserves, for various purposes.

Since the term "reserve" has different meanings in different financial settings, the term may be a misnomer as it relates to the Agency's funds if there is an assumption that the reserves are in excess of the Agency's needs. The Agency's restricted reserves are not surplus moneys as used in the context of state agency fund designations. The Agency's reserves are, instead, designations of restricted funds as required of any private financial institution. As described in the Agency's 2005/06 Annual Report, in the notes to the audited Financial Statements, all of the Agency's equity is restricted either by indenture or by statute, or invested in capital assets.

The categories "Restricted by Indenture" and "Restricted by Statute" reflect the Agency's restricted equity. Pursuant to state statutes, resolutions and indentures, specified amounts of cash, investments and equity must be restricted and reserved. The equity categorized as Restricted by Indenture represents the indenture restrictions of specific bonds, whereas the Restricted by Statute category represents equity that is further restricted to fund deficiencies in other bonds, programs or accounts. The Housing Finance Fund maintained all required balances in the loan and bond reserve accounts as of September 30, 2005.

Generally, there are indenture covenants requiring that equity be retained under the lien of each indenture until certain asset coverage tests, as well as cashflow tests, have been met. Other restricted reserves are pledged to meet the Agency's bond and insurance general obligations, continuing program maintenance and ongoing administrative costs.

**ALLOCATION OF CALHFA EQUITY:**

The Agency's equity balance is contained within a series of funds and accounts, including bond funds and other types of restricted funds and accounts. Within these funds and accounts, equity has been classified according to the purpose it is intended to serve. These purposes include providing security for current and future bond issues, providing for emergency needs, leveraging restricted reserves for non-bond housing assistance programs, and providing for future operating expenses and financing costs.
The Agency's equity is allocated into three main restricted reserve categories: Restricted by Indenture, and Restricted by Statute, and Invested in Capital Assets. They are described as follows:

**Restricted by Indenture:**

The amount classified as Restricted by Indenture ($723 million) includes amounts required to be retained in the various bond indenture funds. This total provides security for the specific bonds to which they are assigned.

**Restricted by Statute:**

To comply with state law, rating agency requirements, credit enhancement agreements, and investor guarantees, the Agency is also required to maintain restricted reserves in addition to the above-described Indenture Restricted Reserves.

The amount classified as Restricted by Statute ($469 million), consisting of amounts from the Emergency Reserve Account, the Supplementary Bond Security Account, the Housing Assistance Trust, the Contract Administration Programs, and the Operating Account provides general support for all obligations of the Agency, including general obligation bonds, interest rate swaps, and mortgage insurance.

The Agency has no taxing power, and bonds issued by the Agency are not obligations of the State of California. Some Agency bonds are issued as general obligations of the Agency, however, and are payable out of any assets, revenues, or moneys of the Agency, subject only to agreements with the holders of any other obligations of the Agency. This pledge is in addition to that of the specific revenues and assets pledged under the indenture. The Agency has received a Standard & Poor's rating of AA- on its general obligation pledge and a Moody's Investor Service rating of Aa3.

The Agency has $1.5 billion of bonds outstanding that are backed by CalHFA's general obligation. The Agency has also extended its general obligation pledge to $361 million of multifamily loans insured by FHA under its Risk Share Program. Our risk is 50% of this amount, or $181 million. In addition, the Agency pledges its general obligation for another $3.7 billion to its swap counterparties for the interest rate swaps that are currently outstanding.

While most of the Agency's reserves are contractually restricted as security behind the $7.9 billion in Agency liabilities and the $1.3 billion in single family mortgages insured by the Agency, other reserves serve a "dual purpose." These reserves provide the Agency with the resources to meet its capital adequacy requirements, general obligation pledge risk reserves, and operating funds. At the same time, prudent management of these accounts has allowed the CalHFA Board to carefully apply them to necessary uses under the Operating Account, Emergency Reserve Account, and the Housing Assistance Trust.

To maintain the necessary security reserves, it is important that these accounts be invested in uses that will preserve principal and generate revenues to the Agency. This is necessary because fee revenues will decline as the bond issues mature, but our administrative and monitoring responsibilities will continue for the up-to-40-year life of the bonds and loans. It is planned that during these later years scheduled draws from the Emergency Reserve Account, Housing Assistance Trust, Operating Reserves and other accounts will be used to support the
ongoing bond and loan administrative costs. Accordingly, when these funds are deposited or "invested" in various Agency programs, they are carefully managed to maintain low levels of risk and ultimate liquidity for long-term bond and loan management purposes.

The Contract Administration Programs ($122 million) category includes amounts related to programs originally funded with appropriations from the State and is restricted by State statutes. The equity is therefore not available for allocation to other Agency purposes.

Within the Operating Account, the Agency maintains a $34 million operating reserve, equivalent to one year's operating budget, including a $7 million revolving fund for bond financing expenses. The revolving fund serves to provide short-term advances to pay the initial costs of bond issuance, pay for interest rate hedges, pay debt service on the Housing Program Bonds, and pay other costs of developing bond programs. Such allocations of equity ensure the continued administration of the Agency's programs and also serve to meet rating agency liquidity and capital adequacy requirements.

LOSS PROTECTION:

Rating Agency Requirements:

The credit rating services (Moody's Investors Service and Standard & Poor's) provide certain quantitative guidance regarding the need for reserves to protect against certain quantifiable risks of loss. We have always judged the soundness of our Business Plan by projecting financial results for the five-year period and determining that these projections were consistent with rating agency criteria.

Both rating agencies require the Agency to establish reserves for each bond issue, intended to protect the bondholders and the Agency in the event that the actual cashflows associated with a bond issue differ from the cashflows projected at the time of issuance of the bonds. In order to determine the size of the reserves to be established for each issue, the rating agencies analyze the performance of the projected cashflows and assets at the time of bond issuance under a "worst case scenario". The Agency is required to set aside and maintain reserves in an amount necessary to cover any projected cashflow shortfalls under these worst-case scenarios. Such reserves represent a direct allocation and restriction of the Agency's equity.

In addition, Standard & Poor's provides certain formulas for determining capital adequacy for its "Top Tier" designation and its issuer, or general obligation, credit rating.

The guidelines Standard & Poor's uses to evaluate housing finance agencies include: number of years issuing bonds, administrative capabilities, investment policy, internal controls, loan portfolio quality, and maintenance of residual fund balances (as defined by S&P) equal to 4% of non-AAA bonds outstanding. One-half of these required residual balances (2% of non-AAA bonds) must be liquid assets.

In order to assess the adequacy of the Agency's equity at any point in time, S&P analyzes the Agency's finances to determine the amount of residual equity remaining after providing for any potential risks which have not already been addressed to S&P's satisfaction. In addition, S&P evaluates various financial ratios, which are indicators of leverage, liquidity, and general obligation debt exposure.
The Agency's general obligation pledge currently stands behind $7.9 billion of single family and multifamily debt, $181 million of multifamily loans subject to FHA Risk Share, and $3.7 billion to our swap counterparties for our outstanding interest rate swaps. It is anticipated that, during the term of the Plan, direct utilization of the Agency's general obligation will be greatly expanded, as shown in the table below. In order to continue to meet the capital adequacy requirements of Moody's and S&P, the Agency must reserve equity against these pledges.

**Pledges of CalHFA General Obligation**  
*(In millions)*

<table>
<thead>
<tr>
<th></th>
<th>Current Pledges</th>
<th>Estimated as of June 30, 2011</th>
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</thead>
<tbody>
<tr>
<td>CalHFA G.O. Bonds</td>
<td>$1,486</td>
<td>$2,000</td>
</tr>
<tr>
<td>FHA Risk Share Program</td>
<td>181</td>
<td>250</td>
</tr>
<tr>
<td>Interest Rate Swaps</td>
<td>3,736</td>
<td>7,000</td>
</tr>
<tr>
<td></td>
<td>$5,403</td>
<td>$9,250</td>
</tr>
</tbody>
</table>

The rating agency assessment of CalHFA equity is very similar to the determination of capital adequacy of financial institutions and is necessary for the financial well-being of CalHFA as the state's affordable housing bank. In addition, other benefits of meeting the rating agencies' capital adequacy requirements include:

- higher bond ratings, resulting in a lower cost of funds,
- reduced interest expense to the home buyer or multifamily project sponsor,
- continuation of a mortgage insurance program,
- elimination of special hazard insurance requirements, and
- reduction or suspension of other credit enhancements on Agency bond issues.

The costs of not meeting these requirements include:

- the possibility of a technical default under one of the covenants contained in our swap, bond, liquidity, or bond insurance agreement,
- jeopardizing the Agency's Aa3/A+ ratings of its insurance claims paying ability,
- jeopardizing ratings on the Agency's currently outstanding bonds,
- an increase in the Agency's cost of funds,
- increased cost of credit enhancement and liquidity for variable rate bonds,
- less favorable terms for new financial agreements including interest rate swaps, and
- reduction in the number of willing financial partners such as investors, bond insurers, liquidity providers, and swap counterparties.

CalHFA first earned its Top Tier designation in 1986 and has achieved the performance levels necessary to retain this honor continuously since that date. We fully intend to continue the strong management practices, sound program planning, and internal control systems that have allowed us to maintain this designation. We also expect to achieve financial results in the future consistent with our current issuer credit ratings from both Moody's and Standard & Poor's.
Other Prudent Reserves:

A portion of the Agency’s equity is restricted to protect the Agency’s assets from potential losses due to interest rate risk, natural catastrophes such as earthquakes and floods, risk associated with the multifamily loan portfolio, negative arbitrage, uncollateralizable investment agreements, and unanticipated interest rate swap terminations.

- Interest Rate Risk

CalHFA’s variable rate bond strategy is the key to its ability to offer attractively priced loan products in today’s highly competitive, mortgage marketplace. Utilizing variable rate bonds, while hedging long-term exposure with interest rate swaps, enables borrowers to take advantage of CalHFA’s significantly reduced cost of funds. In addition, the lower cost of funds provides CalHFA with an opportunity to modestly increase its capital base in spite of lending at the lowest rates in its history. As of March 31, 2006, the Agency had $6.41 billion of variable rate bonds outstanding, and another $100-150 million may be added before the end of the 2005/06 fiscal year. It is possible that another $1.4 billion may be issued each year going forward for the life of the Plan.

Given the Agency’s variable rate bond strategy, it should set aside reserves to cover the risk of rising rates, the costs of acquiring interest rate hedges, and certain risks related to such hedges. For example, hedges we might enter into to reduce our tax-exempt interest rate risk are likely to leave us exposed to the risk of tax law changes that would reduce or eliminate personal and corporate income taxes. Another risk would be counterparty failure in connection with an interest rate swap or cap. In this regard, it should be noted that as of March 1, 2006, the market value of the Agency’s 100+ interest rate swaps was a negative $199 million. What this means is that, if all our counterparties were to fail, the Agency would owe termination payments in this amount. In addition, continued high incidences of single family loan prepayments could upset the balance between the notional amount of the swaps and the outstanding amount of related variable rate bonds.

Because interest rates could rise, either because the Federal Reserve raises short-term rates or because changes in tax law could reduce the value of the tax exemption, the Agency needs to set aside a substantial reserve against this risk.

- Natural Catastrophes

In order to provide more financing for affordable housing in high-cost areas of the state, the Agency petitioned the rating agencies to allow a higher percentage of home loans to be made to purchasers of condominiums. The rating agencies agreed, but only if the Agency would establish a reserve in an amount equal to 1% of the unpaid principal balance of such loans to effectively insure the loan portfolio against losses in the event of an earthquake. The Agency currently has in its portfolio a total of $1.2 billion of loans for condominiums. A portion of the Agency’s multifamily loan portfolio is insured under a $50 million multifamily earthquake and flood insurance policy which has a 5% deductible and does not provide for loss of income. The Agency has restricted equity to supplement the coverage not provided by the policy.

- Project Maintenance

Equity is restricted to protect the Agency from possible losses on multifamily project loans. It should be recognized that the Agency could be called upon at any time to meet certain deficits
as a result of debt service shortfalls on project loans. Given the size of the Agency’s $1.4 billion multifamily loan portfolio and the substantial pipeline of new loans to be originated or acquired, reserves must be available as a reasonable protection from late payments, emergency maintenance needs or various cashflow shortfalls. One type of potential cashflow shortfall could result if HUD is unable to extend Section 8 Housing Assistance Payments contracts to the final maturity of our loans.

- Negative Arbitrage

The Agency expects to continue to be unable to invest a portion of the proceeds of its bonds and certain loan prepayments at rates equal to the cost of funds of each transaction. Equity has been reserved to protect the Agency against such negative arbitrage and to ensure the Agency’s ability to pay debt service on these bonds.

- Investment Risks

A portion of the Agency’s earlier investment agreements do not contain collateralization requirements. During the term of these agreements, the Agency’s principal and interest are potentially at risk. The Agency has allocated equity to provide liquidity to meet debt service obligations in the event one or more of these investment agreement providers experiences financial difficulty.

**Equity Analysis by Fund and Account:**

The Agency’s total equity at September 30, 2005 was $1.2 billion (Housing Finance Fund) and $59 million (Housing Loan Insurance Fund). All of this equity is restricted per the requirements described previously and as detailed below. As approved by the Board and within rating agency standards, the Agency reinvests and leverages a portion of its restricted equity to support Housing Assistance Trust programs not funded through the use of bond proceeds.

**Bond Indenture Equity:**

As of September 30, 2005, $723 million of the Agency’s total equity is restricted within the bond indentures. All of the bond indenture equity is subject to the indenture and rating agency requirements described above, and a portion of the bond indenture equity supports the Agency’s operating budget.

**Contract Administration Programs:**

The Agency administers loan and grant programs for the Rental Housing Construction Program, the School Facilities Fee Down Payment Assistance Program, and the California Homebuyer’s Down Payment Assistance Program. Funding of these programs was appropriated by the legislature to other departments and agencies within the state that have contracted with the Agency for this purpose. The equity of $95.4 million at December 31, 2005 is unavailable for Agency reallocation. This portion of the Agency’s equity will grow as Prop. 46 programs are funded.

**Housing Assistance Trust (HAT):**

As of September 30, 2005, HAT accounts for $190.2 million of the Agency’s total equity. All of the equity in HAT is required to meet general obligation pledges and capital adequacy
requirements. While meeting these financial means requirements, the Agency may also invest these funds in support of Agency programs which are not otherwise funded by bond proceeds.

Through HAT, CalHFA invests in a number of special lending programs which are targeted to special affordable housing needs in support of the primary Homeownership and Multifamily lending programs and in support of the mortgage insurance programs. Prudent management consistent with rating agency standards allows CalHFA to invest some of its restricted reserves in Agency programs through the Trust and still meet its capital adequacy and reserve requirements. These special HAT programs are discussed elsewhere herein.

The concept of using HAT as a means for making program-related investments of restricted reserves makes HAT ideal as a revolving loan fund for a variety of purposes and programs. Moneys in HAT will continue to be utilized for short and intermediate term loan warehousing purposes in support of the Agency's main line lending programs. Examples of these kinds of investments include warehousing of loans that await assignment to bond issues, warehousing of permanent multifamily loans, and warehousing of multifamily loan participations that cannot be financed with federally tax-exempt bonds.

**Supplementary Bond Security Account:**

The statutorily established Supplementary Bond Security Account (SBSA) accounts for $58.7 million of the Agency's equity at September 30, 2005. This equity is subject to many influencing factors such as rating agency requirements, loss protection against loan default risks, interest rate risks, natural catastrophes, and negative arbitrage. The SBSA is being used to indemnify the Housing Loan Insurance Fund against losses on certain CalHFA loans the Agency must insure, under the terms of its bond indentures, that may be supplemented or replacement coverage. In addition the SBSA may be used in the future to insure deferred-payment loans.

Based on the bonds outstanding to date and estimates of the bonds to be issued and loans to be originated, the Supplementary Bond Security Account will be fully pledged for the duration of the Five-Year Business Plan.

**Emergency Reserve Account:**

The Emergency Reserve Account (ERA) accounted for $57.8 million of the Agency's equity at September 30, 2005. The equity within the ERA enables the Agency to meet its rating agency requirements for its general obligation pledges and the maintenance of its capital adequacy requirements. It provides the primary source of loss protection for the Agency's assets and has been reinvested in support of the Agency's insurance programs.

All of the ERA equity and the equity of other accounts back the Agency's general obligation bonds of $1.5 billion. The Agency's general obligation will continue to be pledged to provide security for bonds to interest rate swap counterparties.

All of the equity in the ERA supports the maintenance of the Agency's issuer credit ratings, top tier designation and capital adequacy position. The maintenance of these reserve requirements at the levels prescribed by the rating agencies is as critical to the Agency's ability to achieve its mission as are the regulatory capital requirements of any other conventional marketplace lending institution.
Because the Emergency Reserve Account does not need to be held entirely in liquid form, it currently serves as a source to warehouse multifamily loans. Although in general the ERA is potentially available for legal claims and risk management purposes, the following describes how the amounts on deposit in the ERA are provisionally allocated to particular contingencies. These allocations are indicated for administrative purposes only and do not represent limitations on the use of the ERA for each contingency category. The account has multiple obligations which potentially could greatly exceed its $57.8 million balance.

**Mortgage Insurance:**

The Agency's Housing Loan Insurance Fund has restricted reserves of $59 million. The Agency's Five-Year Business Plan has a goal of insuring $3.6 billion in new mortgages. Housing Finance Fund reserves would be available to be loaned to the Insurance Fund to increase the amount of its loan loss reserves, should the need arise.

On March 20, 2003, the Board of Directors authorized the Agency to provide financial support to the Housing Loan Insurance Fund from moneys in the much larger Housing Finance Fund by means of a line of credit of up to $100 million. The purpose of the line of credit is to satisfy credit rating agency concerns about the Insurance Fund’s claims-paying ability during times of severe economic stress when the insurance Fund’s reserves may conceivably become depleted as more and more claims are paid. Draws on the line of credit from the Housing Finance Fund will constitute interfund loans.

**General Obligations:**

CalHFA has $1.5 billion in outstanding bonds that are backed, in whole or in part, by the Agency's general obligation (not the state's) in addition to any external credit enhancement (bond insurance or letters of credit). The rating agencies use the shortfall resulting from the worst-case cashflows on our general obligation bonds as a charge against equity. CalHFA maintains a liquidity reserve for part of this requirement in the ERA. The balance of the reserves is applied from other sources such as HAT loans and various bond issues. The reserve is available in the event that the Agency is called upon to make advances to general obligation bond programs to pay debt service or to reimburse the bond insurer for losses or liquidity banks for purchasing variable rate bonds that could not be remarketed. The reserve is also available for protection against potential losses from interest rate fluctuations and from counterparty failure related to interest rate swaps or other hedge instruments. One use of the Emergency Reserve in this regard is the provision of interest rate caps to $35 million of floating-rate single family bonds. Under these internal agreements, the Emergency Reserve Account will be drawn on to pay any interest costs in excess of the cap rates. In addition, to cover worst-case deficiencies in this fiscal year's new bond issues we have made temporary pledges of $81 million that will be released upon delivery of new cash flow runs. This use of the Agency G.O. will be duplicated in future issues.

**Investment Reserves:**

CalHFA’s bond issues create capital in the form of proceeds for the purchase of mortgages. As described in the CalHFA Investment Policy, usually these proceeds are invested with financial institutions with whom we enter into investment agreements. During the term of these agreements, principal and interest are at risk, especially from certain early investment agreements which do not contain collateralization requirements. A portion of the ERA is allocated to provide liquidity to meet debt service obligations in the event of financial difficulties.
with an investment agreement until such time as the funds can be withdrawn from the investment accounts.

**Self-Insured Earthquake Coverage:**

To provide affordable single family housing in high-cost regions of the state, CalHFA petitioned the rating agencies to allow a higher percentage of loans to be made for purchasers of condos. The rating agencies agreed, but only if the Agency established a non-bond reserve of 1% of the loan amount for all condo loans made in earthquake zone areas. The Agency has a total of $1.2 billion of loans on condos in its portfolio. The Agency maintains a 1% reserve for new and resale condos in a Supplementary Reserve Account for $12 million.

The Agency has also obtained earthquake and flood insurance for its multifamily portfolio with a 5% deductible. If called upon, the deductible of $2.5 million (calculated on the probable maximum loss of $50 million) is available in this account.

**Asset Management:**

Various multifamily properties may have maintenance and debt service shortfalls due to a variety of factors. The Agency may be called upon at any time to meet certain funding needs (i.e., property taxes, utilities, workouts, etc.). A reserve of $3 million is a reasonable liquidity amount given the size of the Agency's growing multifamily loan portfolio, now totaling $1.4 billion of unpaid principal balance.

**Operating Account:**

The Operating Account accounts for $34 million of the Agency's equity at September 30. This equity is restricted for meeting the Agency's capital adequacy and general obligation requirements, as well as funding the Agency's operating budget and financing reserves.

**Business Plan Assumptions:**

Cashflow analyses of the Agency's bond programs are again this year being prepared for the purpose of determining the financial strength of these programs. While these cashflow analyses are being prepared primarily for review by the credit rating agencies, they will also be used by the Agency to analyze the current equity position of any program and to forecast future net revenues under different interest rate scenarios. Applying the factors influencing restrictions of the Agency's equity, the resulting analysis quantifies the amount of restricted equity which could be reinvested in support of new or expanded programs as described in the Business Plan and projects the timing of such reinvestment opportunities.

Implementation of the Five-Year Business Plan as presented in this summary is dependent upon realization of the underlying assumptions. The plan is intended, however, to remain flexible in the event that actual events differ from these assumptions.

**Major Assumptions:**

- Origination of $6.5 billion of new home loans to be financed with a combination of tax-exempt and taxable bonds.
• Commitments of $780 million of multifamily loans to be financed with agency general obligation, issued as either tax-exempt or taxable bonds.
• Insurance of approximately $3.6 billion of mortgages.
• Sufficient Private Activity Bond (PAB) allocation. In the out years of the Plan, increasing amounts of PAB may be required if our opportunity to recycle prior single family allocation by means of replacement refundings or direct purchase of replacement loans. Recycling opportunities may decline because of the delayed effect of certain prior changes to federal tax law.
• Continued ability to rely on variable rate financing structures (both swapped and unswapped) to achieve interest rate savings. If bank liquidity for put bonds becomes unavailable, other variable rate structures (auction or indexed bonds) would need to be cost effective.
• Agency fund balances are adequate over the life of the Plan to maintain capital reserve requirements related to credit adjustments, real estate losses and Agency general obligations.

Other Assumptions:

Several other programmatic and financial assumptions were made to arrive at the projections comprising the Agency's Five-Year Business Plan. The following is a summary of such assumptions:

• Home loan portfolio maintains its current delinquency ratio and REO experience.
• Capital reserve requirements for multifamily loans can be reduced through risk-sharing agreements and as a result of continued low delinquency and default rates.
• Homeownership prepayments to be received according to the following table:

<table>
<thead>
<tr>
<th>Mortgage Rates</th>
<th>% of PSA Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 4.00%</td>
<td>100%</td>
</tr>
<tr>
<td>4.00% - 4.99%</td>
<td>157%</td>
</tr>
<tr>
<td>5.00% - 5.99%</td>
<td>323%</td>
</tr>
<tr>
<td>6.00% - 6.99%</td>
<td>541%</td>
</tr>
<tr>
<td>7.00% - 7.99%</td>
<td>503%</td>
</tr>
</tbody>
</table>

• Average investment rate in the absence of investment agreements to equal one month LIBOR.
• Obtain adequate salary levels to recruit and retain qualified individuals to perform at the level necessary to maintain our bond ratings.
• Financial strength of the entire multifamily portfolio to remain at the current level.
• Interest rates remain sufficiently low during the life of the Plan so that significant economic savings can continue to be generated by means of variable-rate bond strategies, especially when applied to the refunding of prior bonds.
• Operating budget is assumed to increase an average of 5% per year.
• Relatively stable California real estate valuations.
• No unexpected insurance losses.
• No principal losses from investments.
• No failures of swap counterparties or unanticipated swap termination events.
• Only minor changes in the value of the federal tax exemption.
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RESOLUTION 06-13

WHEREAS, pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), the California Housing Finance Agency ("Agency") has the authority to engage in activities to reduce the cost of mortgage financing for home purchase and rental housing development, including the issuance of bonds and the insuring of mortgage loans;

WHEREAS, the Agency's statutory objectives include, among others, increasing the range of housing choices for California residents, meeting the housing needs of persons and families of low or moderate income, maximizing the impact of financing activities on employment and local economic activity, and implementing the objectives of the California Statewide Housing Plan;

WHEREAS, the Agency desires to amend Resolution 05-23 adopted on May 12, 2005, which committed the Agency to a Business Plan for the years 2005/2006 through 2009/2010; and

WHEREAS, the Agency has presented to the Board of Directors a fiscal year 2006/2007 through 2010/2011 annual update of the Business Plan, in order to adjust to the ever changing economic, fiscal and legal environment, which updated Business Plan is designed to assist the Agency to meet its statutory objectives, to address the housing needs of the people of California and to provide the Agency with the necessary road map to continue its bond, mortgage financing, and mortgage insurance activities well into the future.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Agency as follows:

1. The updated 2006/07-2010/11 Five-Year Business Plan, a copy of which is attached hereto and made a part hereof, is hereby fully endorsed and adopted.

2. In implementing the updated Business Plan, the Agency shall strive to satisfy all the capital adequacy, reserve, and any other requirements necessary to maintain the Agency's top-tier designation by Standard & Poor's Corporation, to maintain its general obligation credit ratings and the current credit ratings on its debt obligations, to comply with the requirements of the Agency's providers of credit enhancement, liquidity, and interest rate swaps and caps, and to satisfy any other requirements of the Agency's bond and insurance programs.

3. Because the updated Business Plan is necessarily based on various economic, fiscal and legal assumptions, in order for the Agency to respond to changing circumstances, the Executive Director shall have the authority to adjust the Agency's day-to-day activities to reflect actual economic, fiscal and legal circumstances in order to attain goals and objectives consistent with the intent of the updated Business Plan.
Resolution 06-13
Page 2

I hereby certify that this is a true and correct copy of Resolution 06-13 adopted at a duly constituted meeting of the Board of Directors of the Agency held on May 11, 2006, at Burbank, California.

ATTEST: ______________________
Secretary
State of California

MEMORANDUM

To: Board of Directors

Date: May 11, 2006

Theresa A. Parker, Executive Director

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: BOARD RESOLUTION 06-14: OPERATING BUDGET 2006/2007

Given our relative status-quo Business Plan, the Agency has completed a thorough review of its resources and made determinations as to how our resources can best be used to accomplish our business goals. We are proposing a relatively flat operating budget with only a 3% increase.

Given our recruiting challenges, the focus of our attention this year will be on upgrading our internal infrastructure. Therefore, positions have been redirected to accomplish these much needed best practice changes. Specifically, two positions have been added to the Financing Division to enable cash flow management to be performed internally. Information Technology has also added two positions to further support the Agency’s ambitious enterprise-wide IT initiatives. In addition, one position has been added to the Administration Division to support recruitment activities. Lastly, two positions have been added to support on-going workload – one position in the Homeownership Special Lending Unit and another in the Fiscal Services Purchasing Unit. By redirecting positions and resources, only two new positions are actually proposed to total authorized positions in the budget.

Despite the addition of the two new positions, Personal Services expenditures increased only slightly due to limited salary increases that were negotiated in collective bargaining contracts for attorneys and inspectors.

Adjustments to our operating expense line items have also been incorporated after thorough review. Specifically, there is a 21% increase in our Central Administrative Services. This line item funds pro rata services provided to us by other state departments and also funds health benefits for retirees of the Agency. (This is a cost item we have no control over.)
The other significant increase is the line item for Consulting and Professional Services. While consulting for Legal has decreased by 13%, the IT consulting request has increased by 159%. (It is also important to note that the line item for IT has decreased by 34% due to more accurately reflecting appropriate cost under Consulting and Professional Services.) In budget year 2005/06, significant investments were made to address the issue of information technical infrastructures and legacy applications that are at capacity and very dated. IT projects were initiated to update the Agency’s network, the server and desktop infrastructures and to enhance the business practices and operations of the IT organization. Significant IT projects also were initiated to update the business processes and define the requirements for new application systems to support the major business operations for the Agency including Homeownership loan origination, Multifamily loan origination, Financing bond and investment tracking, and Fiscal Services cash receipts, mortgage reconciliation and general ledger accounting. To accomplish these very ambitious IT goals, the Agency has identified and allocated the significant resources necessary to support the development and implementation phases of these critical IT initiatives.

Given our Business Plan goals, I believe this years’ focus is best served by turning inward to build our business infrastructure. Only by having an up-to-date infrastructure can we remain relevant in the rapidly changing lending industry as well as incorporating best practices into all of our business units. We will continue to work on the recruitment effort. When we are able to hire, we want to be positioned to focus all our talent and resources on the fight for affordable housing.

Once again, it is important to note that the Agency’s operations are completely self-supporting. As such, they do not adversely affect State expenditures, and, in fact, the Agency’s accomplishments directly aid the State economy.
April 25, 2006

CALIFORNIA HOUSING FINANCE AGENCY
2006/07
HOUSING AND INSURANCE OPERATING FUNDS
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>EXPENDITURE ITEM</th>
<th>Actual 2004-05</th>
<th>Budgeted 2005-06</th>
<th>Proposed 2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERSONAL SERVICES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized Salaries</td>
<td>$14,868</td>
<td>$18,405</td>
<td>$18,570</td>
</tr>
<tr>
<td>Estimated Salary Savings</td>
<td></td>
<td>(920)</td>
<td>(928)</td>
</tr>
<tr>
<td>Staff Benefits</td>
<td>4,893</td>
<td>5,246</td>
<td>5,292</td>
</tr>
<tr>
<td>TOTALS, Personal Services</td>
<td>$19,761</td>
<td>$22,731</td>
<td>$22,934</td>
</tr>
</tbody>
</table>

| OPERATING EXPENSES AND EQUIPMENT              |                |                  |                  |
| General Expense                              | 1,175          | 800              | 750              |
| Communications                               | 595            | 600              | 660              |
| Travel                                       | 469            | 437              | 502              |
| Training                                     | 147            | 155              | 155              |
| Facilities Operation                         | 2,641          | 2,800            | 2,885            |
| Consulting & Professional Services           | 5,024          | 5,210            | 6,062            |
| *Central Admin. Serv.                        | 1,433          | 1,182            | 1,288            |
| Information Technology                       | 961            | 1,250            | 830              |
| Equipment                                    | 400            | 500              | 450              |
| TOTALS, Operating Expenses and Equipment     | $12,843        | $12,934          | $13,722          |

| TOTALS, EXPENDITURES                         | $32,604        | $35,665          | $36,656          |

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.
April 25, 2006

CALIFORNIA HOUSING FINANCE AGENCY
2006/07
CalHFA FUND OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>EXPENDITURE ITEM</th>
<th>Actual 2004-05</th>
<th>Budgeted 2005-06</th>
<th>Proposed 2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERSONAL SERVICES</td>
<td></td>
<td></td>
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<tr>
<td>Authorized Salaries</td>
<td>$14,266</td>
<td>$17,575</td>
<td>$17,748</td>
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<tr>
<td>Estimated Salary Savings</td>
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<td>(887)</td>
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<tr>
<td>Staff Benefits</td>
<td>4,678</td>
<td>5,009</td>
<td>5,058</td>
</tr>
<tr>
<td>TOTALS, Personal Services</td>
<td>$18,944</td>
<td>$21,706</td>
<td>$21,919</td>
</tr>
</tbody>
</table>

| OPERATING EXPENSES AND EQUIPMENT       |                |                  |                  |
| General Expense                        | 1,154          | 765              | 725              |
| Communications                         | 579            | 580              | 637              |
| Travel                                 | 448            | 412              | 472              |
| Training                               | 137            | 135              | 135              |
| Facilities Operation                   | 2,559          | 2,700            | 2,794            |
| Consulting & Professional Services     | 3,465          | 4,945            | 5,797            |
| *Central Admin. Serv.                  | 1,297          | 1,093            | 1,355            |
| Information Technology                 | 915            | 1,200            | 800              |
| Equipment                              | 397            | 450              | 400              |
| TOTALS, Operating Expenses and Equipment| $10,952        | $12,279          | $13,115          |

| TOTALS, EXPENDITURES                   | $29,896        | $33,985          | $35,034          |

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.
April 25, 2006

CALIFORNIA HOUSING FINANCE AGENCY
2006/07
MIS FUND OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>EXPENDITURE ITEM</th>
<th>Actual 2004-05</th>
<th>Budgeted 2005-06</th>
<th>Proposed 2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERSONAL SERVICES</td>
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<td></td>
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<tr>
<td>Authorized Salaries</td>
<td>$602</td>
<td>$830</td>
<td>$822</td>
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<tr>
<td>Estimated Salary Savings</td>
<td></td>
<td>(42)</td>
<td>(41)</td>
</tr>
<tr>
<td>Staff Benefits</td>
<td>215</td>
<td>237</td>
<td>234</td>
</tr>
<tr>
<td>TOTALS, Personal Services</td>
<td>$817</td>
<td>$1,025</td>
<td>$1,015</td>
</tr>
</tbody>
</table>

| OPERATING EXPENSES AND EQUIPMENT      |                |                  |                  |
| General Expense                       | 21             | 35               | 25               |
| Communications                        | 16             | 20               | 23               |
| Travel                                | 21             | 25               | 30               |
| Training                              | 10             | 20               | 20               |
| Facilities Operation                  | 82             | 100              | 91               |
| Consulting & Professional Services    | 1,558          | 265              | 265              |
| *Central Admin. Serv.                 | 136            | 89               | 73               |
| Information Technology                | 45             | 50               | 50               |
| Equipment                             | 2              | 50               | 50               |
| TOTALS, Operating Expenses and Equipment | $1,891          | $654             | $607             |

TOTALS, EXPENDITURES

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budgeted</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$2,708</td>
<td>$1,679</td>
<td>$1,622</td>
</tr>
</tbody>
</table>

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.
April 25, 2006

CALIFORNIA HOUSING FINANCE AGENCY
2006/07

SUMMARY
PERSONNEL YEARS AND SALARIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE OFFICE</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>$491,755</td>
<td>$486,998</td>
<td>$496,544</td>
</tr>
<tr>
<td>ADMINISTRATION</td>
<td>14.9</td>
<td>19.0</td>
<td>20.0</td>
<td>$731,988</td>
<td>$1,009,944</td>
<td>$1,060,680</td>
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<tr>
<td>FINANCING</td>
<td>9.9</td>
<td>12.0</td>
<td>14.0</td>
<td>$735,753</td>
<td>$974,508</td>
<td>$1,081,068</td>
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<tr>
<td>FISCAL SERVICES</td>
<td>56.0</td>
<td>65.0</td>
<td>66.0</td>
<td>$2,855,118</td>
<td>$3,644,772</td>
<td>$3,635,621</td>
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<tr>
<td>LEGAL</td>
<td>17.3</td>
<td>19.0</td>
<td>19.0</td>
<td>$1,234,825</td>
<td>$1,506,084</td>
<td>$1,566,384</td>
</tr>
<tr>
<td>MARKETING</td>
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<td>7.0</td>
<td>$368,411</td>
<td>$461,280</td>
<td>$461,280</td>
</tr>
<tr>
<td>I.T.</td>
<td>14.8</td>
<td>17.0</td>
<td>19.0</td>
<td>$923,940</td>
<td>$1,201,548</td>
<td>$1,289,112</td>
</tr>
<tr>
<td>HOMEOWNERSHIP</td>
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<td>53.0</td>
<td>54.0</td>
<td>$2,600,509</td>
<td>$3,144,528</td>
<td>$3,213,408</td>
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<tr>
<td>MIS</td>
<td>9.2</td>
<td>12.0</td>
<td>12.0</td>
<td>$591,691</td>
<td>$830,102</td>
<td>$821,894</td>
</tr>
<tr>
<td>MULTIFAMILY</td>
<td>28.4</td>
<td>39.0</td>
<td>36.0</td>
<td>$1,954,258</td>
<td>$2,747,556</td>
<td>$2,523,528</td>
</tr>
<tr>
<td>ASSET MANAGEMENT</td>
<td>22.5</td>
<td>32.0</td>
<td>32.0</td>
<td>$1,350,149</td>
<td>$1,998,624</td>
<td>$2,066,103</td>
</tr>
<tr>
<td>Temporary Help</td>
<td>23.1</td>
<td>8.2</td>
<td>7.0</td>
<td>$961,216</td>
<td>$340,500</td>
<td>$291,000</td>
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<tr>
<td>Overtime</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>$68,368</td>
<td>$59,000</td>
<td>$63,000</td>
</tr>
<tr>
<td>TOTAL SALARIES</td>
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<td>289.2</td>
<td>292.0</td>
<td>$14,867,981</td>
<td>$18,405,444</td>
<td>$18,569,622</td>
</tr>
<tr>
<td>Less Salary Savings*</td>
<td>(14.5)</td>
<td>(14.6)</td>
<td></td>
<td>($920,272)</td>
<td>($928,481)</td>
<td></td>
</tr>
<tr>
<td>NET SALARIES</td>
<td>253.9</td>
<td>274.7</td>
<td>277.4</td>
<td>$14,867,981</td>
<td>$17,485,172</td>
<td>$17,641,141</td>
</tr>
</tbody>
</table>

*This figure represents a normal rate of vacancies and lag time in refilling positions in accordance with State budget practices.
2006/2007 Personnel Years and Salaries

<table>
<thead>
<tr>
<th>ORGANIZATIONAL UNIT</th>
<th>NUMBER OF POSITIONS</th>
<th>EXPENDITURES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Salary Range)</td>
<td></td>
</tr>
</tbody>
</table>

**OPERATIONS**

Executive Office

- **Executive Director**: 1.0, 1.0, 1.0, $9,824-10,625, $127,496, $127,496
- **Chief Deputy Director**: 1.0, 1.0, 1.0, 9,237-9,992, 119,904, 119,904
- **Director of Legislation**: 1.0, 1.0, 1.0, 6,785-7,337, 88,044, 88,044
- **Assoc Govt Prog Analyst**: 1.0, 1.0, 1.0, 4,111-4,997, 59,964, 59,964
- **Adm Asst II**: 1.0, 1.0, 1.0, 4,111-4,997, 59,964, 59,964
- **Adm Asst I**: 0.7, 0.0, 0.0, 3,575-4,347, 0, 0
- **Executive Secretary**: 0.0, 0.0, 1.0, 2,822-3,431, 0, 41,172
- **Office Techn-Typing**: 0.3, 1.0, 0.0, 2,510-3,050, 31,626, 0

**Totals, Executive Office**

|                     | 6.0 | 6.0 | 6.0 | $491,755 | $486,998 | $496,544 |

**Administrative Division**

**Director’s Office:**

- **Director of Adm**: 0.0, 1.0, 0.0, 7,647-8,433, 101,196, 0
- **C.E.A. I**: 1.0, 1.0, 1.0, 7,647-8,433, 81,420, 101,196
- **Staff Services Mgr II**: 0.0, 0.0, 1.0, 4,746-5,726, 0, 88,712
- **Adm Asst II**: 0.0, 0.0, 1.0, 4,111-4,997, 0, 59,964
- **Adm Asst I**: 1.0, 1.0, 0.0, 3,575-4,347, 49,860, 0

**Totals, Director’s Office**

|                     | 2.0 | 3.0 | 3.0 | $139,178 | $232,476 | $229,872 |

**Administrative Services:**

- **Staff Services Mgr I**: 2.0, 2.0, 2.0, 4,520-5,453, 130,872, 130,872
- **Assoc Personnel Analyst**: 1.0, 1.0, 1.0, 4,111-4,997, 59,964, 59,964
- **Assoc Budget Analyst**: 0.0, 1.0, 1.0, 4,111-4,997, 59,964, 59,964
- **Training Officer I**: 1.0, 1.0, 1.0, 4,111-4,997, 59,964, 59,964
- **Business Service Officer II-Spec**: 1.0, 1.0, 1.0, 3,746-4,555, 54,660, 54,660
- **Staff Services Analyst-Gen**: 2.9, 3.0, 4.0, 3,418-4,155, 149,590, 199,440
- **Sr Pers Services Spec**: 1.0, 1.0, 1.0, 3,418-4,155, 49,860, 49,860
- **Pers Services Spec I**: 0.6, 1.0, 1.0, 3,127-3,800, 45,600, 45,600
- **Mgt Svcs Techn**: 0.0, 0.0, 1.0, 2,632-3,201, 0, 38,412
- **Office Techn-Typing**: 1.3, 2.0, 2.0, 2,510-3,050, 73,200, 36,600
- **Office Asst-Typing**: 0.8, 1.0, 0.0, 2,172-2,641, 31,692, 0
- **Office Asst-Gen**: 1.3, 2.0, 2.0, 2,130-2,568, 62,112, 62,112
- **Program Techn**: 0.0, 0.0, 1.0, 2,130-2,780, 0, 33,360

**Totals, Administrative Services**

|                     | 12.9 | 16.0 | 17.0 | $592,810 | $777,468 | $830,808 |

**Totals, Administrative Division**

|                     | 14.9 | 19.0 | 20.0 | $731,988 | $1,009,944 | $1,060,680 |

**Financing Services:**

- **Director**: 1.0, 1.0, 1.0, 9,115-9,857, 118,284, 118,284
- **Risk Manager**: 0.4, 1.0, 1.0, 8,611-9,314, 111,768, 111,768
- **Financing Chief**: 0.0, 1.0, 1.0, 6,964-7,678, 92,136, 92,136
- **Acctg Administrator III**: 0.0, 0.0, 1.0, 6,334-6,984, 0, 83,806
- **Financing Ofcr**: 3.8, 5.0, 4.0, 5,713-6,906, 414,360, 331,468
- **Financing Spec**: 1.9, 1.0, 2.0, 4,516-5,489, 65,868, 131,736
- **Financing Assoc**: 2.6, 2.0, 1.0, 4,111-4,997, 119,928, 59,964
- **Adm Asst I**: 0.2, 1.0, 1.0, 3,575-4,347, 52,164, 52,164
- **Staff Services Analyst-Gen**: 0.0, 0.0, 2.0, 3,418-4,155, 0, 9,720

**Totals, Financing Services**

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**Totals, Homeownership Programs**

|                  | 45.4 | 53.0 | 54.0 | $2,660,559 | $3,144,528 | $3,213,408 |
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<tr>
<td>Temporary Help</td>
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<td>Overtime</td>
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</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
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<tbody>
<tr>
<td>Total</td>
<td>$16,108,961</td>
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</table>
CALIFORNIA HOUSING FINANCE AGENCY
ACTUAL AND PROJECTED REVENUES AND EXPENSES
OPERATING ACCOUNT
(In millions)

<table>
<thead>
<tr>
<th></th>
<th>2004/05 (Actual)</th>
<th>2005/2006 (Budgeted)</th>
<th>2006/2007 (Projected)</th>
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<tbody>
<tr>
<td>Beginning Balance</td>
<td>$30.3</td>
<td>$32.1</td>
<td>$32.8</td>
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<tr>
<td><strong>HOUSING REVENUES</strong></td>
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<tr>
<td>Administrative Fees:</td>
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<tr>
<td>Single Family/Second Programs</td>
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<tr>
<td>HUD/Multifamily</td>
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<tr>
<td>Commitment Fees/Misc. Inc.</td>
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<td>SMIF Interest on Balance</td>
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<tr>
<td>Operating Transfer</td>
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<tr>
<td>Total Housing Revenues</td>
<td>$31.9</td>
<td>$34.9</td>
<td>$35.9</td>
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<tr>
<td><strong>INSURANCE REVENUES</strong></td>
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<tr>
<td>Reimbursements</td>
<td>2.7</td>
<td>1.7</td>
<td>1.6</td>
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<td><strong>HOUSING AND INSURANCE</strong></td>
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<tr>
<td>TOTAL OPERATING REVENUES</td>
<td>$34.6</td>
<td>$36.6</td>
<td>$37.5</td>
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<tr>
<td><strong>EXPENSES</strong></td>
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<tr>
<td>Housing - Operating Budget</td>
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<td>35.0</td>
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<tr>
<td>Insurance - Operating Budget</td>
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<td>1.7</td>
<td>1.6</td>
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<td><strong>HOUSING AND INSURANCE FUNDS</strong></td>
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<tr>
<td>TOTAL OPERATING EXPENSES</td>
<td>$32.6</td>
<td>$35.7</td>
<td>$36.6</td>
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<tr>
<td>Non-Operating Expenses</td>
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<tr>
<td><strong>Ending Balance</strong></td>
<td>$32.1</td>
<td>$32.8</td>
<td>$33.5</td>
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</table>
RESOLUTION 06-14

CALHFA OPERATING BUDGET

FISCAL YEAR 2006/2007

WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2006/2007 fiscal year;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The operating budget attached hereto is hereby approved for operations of the California Housing Finance Agency Fund for fiscal year 2006/2007.

I hereby certify that this is a true and correct copy of Resolution 06-14 adopted at a duly constituted meeting of the Board of the Agency held on May 11, 2006, at Burbank, California.

ATTEST: ______________________________

Secretary

Attachment
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