Thursday, July 6, 2006

Hyatt Regency Sacramento
1209 L Street
Sacramento, California
(916) 443-1234

9:30 a.m.

1. Roll Call.

2. Approval of the minutes of the March 9 and May 11, 2006 Board of Directors meetings.

3. Chairman/Executive Director comments.

4. Presentation to the Board on the Proposition 63/Homeless Phase II Initiative. Dr. Steven Mayberg, Director of the California Department of Mental Health and Darrell Steinberg, Chair, Mental Health Services Oversight and Accountability Commission will discuss the Initiative and the partnership with CalHFA. Staff will also be available for discussion and questions by the Board.

5. Discussion, recommendation and possible action relative to the organizational documents and procedures of CalHFA’s Board of Directors’ Audit Committee. (Dennis Meidinger; Jack Shine)

6. Discussion, recommendation and possible action relative to the possible creation of CalHFA’s Board of Directors’ Compensation Committee. (Terri Parker)

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

8. Reports ................................................................. 231

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: Parking is available as follows: (1) overnight self-parking for hotel guests is $18.00 per night; valet parking is $24.00.

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be September 7, 2006, at the Hilton Burbank Airport & Convention Center, Burbank, California.
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STATE OF CALIFORNIA
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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.

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
Telephone (916) 682-9482 • Fax (916) 688-0723
FeldhausDepo@aol.com
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS
PUBLIC MEETING

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300 J Street
Sacramento, California

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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

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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

A P P E A R A N C E S
Continued

For the Staff of the Agency:

JIM LISKA
MultiFamily Programs

CHRIS PENNY
Asset Management

KATHY WEREMIUHK
Multifamily Loan Officer

LAURA WHITTALL-SCHERFEE
Chief of Lending
MultiFamily Programs

STEVE SPEARS

GERALD SMART
Chief
Homeownership Programs

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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:

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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.

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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.

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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 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. 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 $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. 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
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 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
defered 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
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."

--000--

"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."

--000--

"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
especially 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 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 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
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 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 --
Board of Directors Meeting held on March 9, 2006

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
MEMORANDUM

To: CalHFA Board Members

Date: June 27, 2006

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPLACEMENT PAGES: MARCH 9, 2006 CALHFA BOARD OF DIRECTORS MEETING

Enclosed are replacement pages 68 (line 4) and 77 (line 10) from the March 9 Board Minutes to be placed in your Board binder. Please contact me at (916) 322-3958 should you have any questions. Thank you.

Enclosures
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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
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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 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
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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
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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
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.

---00o---

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.

--o0o--

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.)

--o0o--
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
May 11, 2006
Board Minutes
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY
--o0o--

BOARD OF DIRECTORS
PUBLIC MEETING

--o0o--

Burbank Airport Hilton & Convention Center
2500 Hollywood Way
Burbank, California

Thursday, May 11, 2006
9:30 a.m. to 11:59 p.m.

Minutes approved by the Board of Directors at its meeting held:
07/06/2006

Attest:  

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

Yvonne K. Fenner & Associates
CERTIFIED SHORTHAND REPORTERS
(916) 531-3422
Fox (916) 457-8369  yfennercsr@aol.com
2256 Murieta Way, Sacramento, California 95822
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

---000---

BOARD OF DIRECTORS
PUBLIC MEETING

---000---

Hilton Burbank Airport & Convention Center
Academy Four Conference Room
2500 Hollywood Way
Burbank, California

Thursday, May 11, 2006
9:30 a.m. to 11:59 p.m.

---000---

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

Yvonne K. Fenner & Associates
Certified Shorthand Reporters
2256 Murieta Way, Sacramento, CA 95822
(916) 531-3422 FAX (916) 457-8369
yfennercsr@aol.com
APPEARANCES

Directors Present:

JOHN A. COURSON, Chairperson
President/CEO
Central Pacific Mortgage

CURT AUGUSTINE
for Sunne Wright McPeak
Business, Transportation and Housing Agency

EDWARD M. CZUKER
President
E.M.C. Financial Corporation

PETER N. CAREY
President/CEO
Self-Help Enterprises

LYNN L. JACOBS
Director
Department of Housing and Community Development
State of California

JACK SHINE
Chairman
American Beauty Development Co.

JOHN G. MORRIS
President
John Morris, Inc.

THERESA A. PARKER
Executive Director
CalHFA

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

---000---
APPEARANCES, (continued)

CalHFA Staff Present:

MARGARET ALVAREZ
Director of Asset Management

GREG CARTER
Mortgage Insurance Chief

EDWIN C. GIPSON, II
Chief Multifamily Lending

THOMAS C. HUGHES
General Counsel

CHUCK MacMANUS
Director of Mortgage Insurance

JOJO OJIMA
Office of the General Counsel

JACKIE RILEY
Director of Administration

GERALD SMART
Chief, Homeownership Programs

DOUG SMOOT
Special Programs, Chief

RUTH VAKILI
Multifamily Loan Officer

KATHY WEREMIUK
Multifamily Loan Officer

LAURA WHITTALL-SCHERFEE
Chief of Lending, Multifamily Programs

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BE IT REMEMBERED that on Thursday, May 11, 2006, 
commencing at the hour of 9:30 a.m., at the Hilton 
Burbank Airport and Convention Center, Gala Conference 
Room, 2500 Hollywood Way, Burbank, California, before me, 
YVONNE K. FENNER, CSR #10909, RPR, the following 
proceedings were held: 

--000--

CHAIRPERSON COURSON: Good morning, everyone. 
I'll call the meeting to order, and our first order of 
business is to call the roll. 

--000--

Item 1. Roll Call 

MS. OJIMA: Thank you. 
Mr. Pavao for Mr. Angelides. 
MR. PAVAO: Bill Pavao here. 
MS. OJIMA: Thank you. 
Mr. Carey. 
MR. CAREY: Here. 
MS. OJIMA: Mr. Czuker. 
MR. CZUKER: Here. 
MS. OJIMA: Ms. Galante. 
(No audible response.) 
MS. OJIMA: Ms. Jacobs. 
MS. JACOBS: Here. 
MS. OJIMA: Mr. Augustine for --
MR. AUGUSTINE: Here.

MS. OJIMA: -- Ms. McPeak.

MR. AUGUSTINE: Here.

MS. OJIMA: Thank you.

Mr. Morris.

(No audible response.)

CHAIRPERSON COURSON: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Walsh.

(No audible response.)

MS. OJIMA: Mr. Genest.

(No audible response.)

MS. OJIMA: Ms. Parker.

MS. PARKER: Here.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Here.

MS. OJIMA: We have a quorum.

--000--

Item 2. Approval of the minutes of the March 9, 2006

Board of Directors meeting

CHAIRPERSON COURSON: The next order of business

is the approval of minutes. However, in reviewing those

minutes with staff, it appears as though there are a

number of incorrectly identified speakers and attendees

at the meeting. So it runs sort of throughout the
minutes, not only from the list of attendees but those who are speaking and those who are identified as speaking. So the suggestion of the Chair is -- in talking to counsel, is that we'll postpone the approval of those minutes, we'll have them corrected, and then we will approve them at our next meeting along with the set of minutes from this meeting.

--oo0--

Item 3. Chairman/Executive Director Comments

CHAIRPERSON COURSON: So having said that, I'll just make a couple or three brief comments and then turn it over to Terri for hers. I had the -- I've had the opportunity, actually on three occasions, to travel to Kentucky for various reasons and had also the pleasure of meeting Terri's counterpart, who is their executive director, and my counterpart, who is the chair of the Kentucky Housing Corporation, as they call it.

And in the last couple of conversations we had, and meetings I was in with them, we talked about some of the initiatives that we're doing here, some of the partnership opportunities in homelessness, and I was just down there last week. And it's really remarkable, and they give credit to CalHFA. In fact, I was in a couple meetings, met with two or three of their board people along with their chair. He clearly credited California
sort of planting the seed of what they could do outside
just their normal course of business in terms of
homelessness and partnering. And they now have built or
designed, and I saw the design of, a prototype homeless
with mental health support, and they're going to build
that in 17 communities throughout Kentucky.

So I think from the staff standpoint and our
standpoint, here once again, we sort of can be a model or
prototype of the types of things HFAs can be doing.

I'll mention also, and this may well have an
indirect impact on us, IRS came out with a rule you may
or may not have seen earlier, I guess it was last week,
that no longer will the down payment assistance
companies -- the Nehemiahs, AmeriDreams; there's a
number of those that are down payment assistance -- be
tax exempt. And when that ruling came out, it sent a
obviously shock wave through the lending market because
of the FHA loans that are done, a substantial percentage,
up to almost -- I've been told almost half of the loans
done FHA are done with some form of down payment
assistance.

And so having done that, FHA now has stepped back
and will be issuing new regulations and likely not
recognizing or -- recognize or insuring loans that have
that down payment assistance.
At the same time FHA is revitalizing, I met with
the secretary and the FHA commissioner, really doing a
full-court press to revitalize FHA to recapture market
share as an alternative to some of the subprime products
that are out there. But with this absence and with their
inability -- because they've been trying for three years
to get 100-percent loan to value financing -- the
inability to get that, and the absence of their down
payment assistance if, in fact, FHA can be a more viable
product, it may well put more pressure on our down
payment assistance.

We've always said, and I've said I think in
public forums, that down payment assistance funds have
been relatively robust and easy to find, and I now
retract that statement based on the new set of
circumstances. And I think they may be very difficult to
find and will put some pressure on us as we get involved
in some of our loan programs, particularly FHA, to
provide down payment assistance. So I think that's
something we'll have to watch carefully. It will
certainly have an impact on our business plan going
forward.

Let me make one other statement, and those of
you -- I was sorry to miss the last meeting for business
purposes, but I know you spent a lot of time talking
about sort of the first cut of the business plan. Terri
and I have worked together now for over two years, and I
will tell you that over the last probably four to six
months, no one that I've seen has been more dogged, more
determined, more aggressive, more in your face, if you
will, throughout Sacramento to really push for CalHFA and
the resources and the tools that we need to carry out not
only our mission now but our mission as it expands
through other initiatives.

So I will tell you that you are well — we are
all well represented by Terri and she -- the word "quit"
is not in her vocabulary that I've seen, and so, Terri, I
personally thank you for staying -- staying the course.
And there were times when we'd have conversations and
we'd say, "Well, I guess we'll just go a different
direction," but even though she'd say that, I know down
depth there was this little seed back there saying, "I'm
just not giving up." For that, we are making great
strides now. So -- and we'll see that in the business
plan today.

So with that, I will turn it over to Terri
Parker.

MS. PARKER: Thank you, John.

I want to express my appreciation to all the
Board members for their attendance today. We think we
have an excellent meeting for you to exercise your
oversight and responsibility and leadership with the
California Housing Finance Agency.

I have four or five different points I want to
make. First of them is at your desk, you will find an
overview of the housing bond that's going to the November
ballot. I think many of you may know that the Governor
and the Legislature successfully negotiated a package of
bonds for infrastructure throughout the State of
California last Friday. One of them included a bond for
housing that I think was in the neighborhood of $2.85
billion. The majority of it will be with our sister
state agency, the Department of Housing and Community
Development. We will be partners in working on the down
payment assistance programs. But I just thought it would
be worthwhile for you to have a little cheat sheet for
you to know what was in the bond.

We -- the question was raised about what
abilities Board members may have of voicing their support
for this bond. And we've asked our esteemed general
counsel to do some research on that and get that out for
the benefit of the Board members. I think as many of the
staff and those people who are staff of state government,
we are precluded both by statute and to some extent
perceptions from being and doing advocacy roles on
initiatives before the voters. We have the ability to
give factual information, but we want to make sure it's
clear for the Board members who are not compensated and
hold positions in government about what their ability and
legal ability is to advocate on behalf of the bond.

As John mentioned, and I think for those of you
who were at our Board meeting last time, we talked about
an issue that CalHFA has been working on with their other
sister state agencies through the Department of Mental
Health, Health and Welfare, HCD to have the Governor make
an announcement on a homeless initiative using Prop. 63
funds. That announcement was sort of leaked in The
Sacramento Bee this morning, so I'm at liberty to not
feel that I am disclosing confidential information, but
it will be incorporated into the Governor's May revision
that's presented to the legislature tomorrow.

It is an initiative that will make a commitment
of $75 million of Proposition 63 funds for up to 20 years
for the creation of permanent supportive housing for
chronic mentally ill. The idea is to essentially use
those funds to leverage the private capital market,
whether it be tax credits, entrepreneurial funds, or
philanthropic funds. And I'm going to invite Darrell
Steinberg, who's to some extent the father of that
initiative to our board meeting in July to talk a little
bit more about that.

But I do want to bring it up because the business plan that was sent to you a couple of weeks ago made an assumption that because of staffing resources, we were going to take the business plan down because we didn't believe that we would have adequate resources to deal with the continued complexities, the kinds of lending that we've been doing.

In the discussions with the Governor's Office about the homeless initiative, it was also recognized that the uniqueness of this program necessitated the kind of staffing that would ensure investors' comfortability with these kinds of bonds and financings to be sold. So we have -- are continuing our discussions with the Governor's Office, and it's our understanding that with that recognition, that we are now in a position to put before you a much more positive business plan, the kind of business plan that we had talked with you about at our March meeting. So we will go through it, but to some extent the numbers that we sent to you are all changed, and we'll walk you through that in our discussions later today.

The -- a little bit of housekeeping. I'd like to make an announcement that we have added another person to our staff. Chuck, Charles, McManus. Chuck has joined
us. Chuck has an incredibly long and distinguished
career in mortgage insurance, and we are incredibly
pleased Chuck is working with us on contract. But given
the concerns about our fiduciary responsibilities with
that portfolio and particularly given how much of a role
the insurance program is playing in our overall
homeownership lending, we felt it was really important to
be able to bring someone on to provide management and
leadership for that fund and to deal with -- since it is
a separately rated fund -- questions or concerns by the
rating agencies.

Another change that we have made, we have done
our triennial RFP with selection of bond counsel under --
bond counsel to work with our underwriters. We made a
change this time to, in that sense, have the benefit of two
outstanding bond counsel firms, both in California and on
the East Coast. We continue to have the outstanding
services of Stan Dirks and Orrick, and we will also be
having Hawkins join in doing bond counsel duties for us.
They have previously served a lot as underwriter counsel.

And then last but not least, I wanted to ask Tom
to make some comments to the Board. Last session we had
a closed session on a litigation matter, and although
we're not going to discuss it in that context, Tom was
going to report a little bit on where we were and sort of
the culmination of that case.

MR. HUGHES: Yes.

MS. PARKER: So, Tom, I will turn it over to you.

MR. HUGHES: At the last meeting, we did have a closed session to discuss the litigation concerning the construction defects in the Ridgeway Apartments project located in Marin City, California. That has been a project plagued with construction defects, and CalHFA has had a security interest in the borrowers' causes of action against the contractors. So the Agency has played a direct role in that litigation, although we're not a party.

At this point we have through many, many, many meetings and discussions and debates, nailed down the financial settlement that we want, and that is about 99.9 percent close to a settlement. The only remaining issues involve the actual terms of the settlement agreement and whether the Agency needs to be a party. But I will be in Marin County Superior Court at 9:00 a.m. sharp tomorrow morning, and I'm going to try and get the thing nailed down so hopefully we will be able to report that we have -- we will have access to the funds needed to make that project right again.

MS. PARKER: Unless there are any questions,

Mr. Chairman --
CHAIRPERSON COURSON: Mr. Morris.

MR. MORRIS: Could you just refresh my recollection who the developer was and who the contractor was, and also do we have any other projects with them?

MR. HUGHES: The contractor is an entity called Devcon, and there are numerous subcontractors involved. It's one of these cases with 20 or 30 parties. And our Borrower is called GAP, Gateway Apartment Partners.

MR. MORRIS: Do we have a lot of other projects with them?

MR. HUGHES: I don't know the answer to that. I'm not aware of any. This project involved a number of -- some not atypical kinds of construction defects but others that were pretty unusual such as subsidence, which eventually caused hangers that held plumbing to bend and plumbing to crack and resulting in water damage. So the particular geology to that location was a part of the issue there as well. So I don't know if you can draw project- or portfolio-wide conclusions from that.

There's -- it's a very large and complicated construction defect litigation.

CHAIRPERSON COURSON: Let me -- two things. One, let the record show that Mr. Morris has joined us. He joined just after the roll call. And second, I was remiss and I mean to welcome, even though she has already spoken.
as being in attendance, the new Director of HCD, Lynn Jacobs. And Lynn joins us a member of the Board. This is her first Board meeting. And we've always had a -- obviously, we're sort of joined at the hips between CalHFA and HCD, and we're looking forward to getting to know Lynn better and working with her during her tenure.

Having said that and if Terri's completed her remarks, we'll move to the -- item 4 in our agenda, which is the consideration of the Lion Creek Crossings project.

---oo0oo---

Item 4. Discussion, recommendation and possible action relative to final loan commitment for the following project: Lion Creek Crossings

MS. WHITTALL-SCHERFEE: Good morning. This is a request for a final commitment on Lion Creek Crossings. Lion Creek Crossings is a project that's 106 family units. It's located in Oakland, California, which is in Alameda County.

You're probably familiar with this project because it is Phase III of what might be known to the Board as Coliseum I and Coliseum II. This could technically be called Coliseum III except for they've changed the whole project to the Lion Creek Crossings

HOPE VI Master Planned Development.

The project will be owned by Creekside Housing
Partners Limited Partnership. The general partners in
the joint venture partners in project are the East Bay
Asian Local Development Corporation and the Related
Companies. They are the same partners that are on
Phase I and Phase II.

CalHFA committed the construction and permanent
loan financing on Coliseum Gardens I. We were not the
construction lender on Phase II, but we are the permanent
lender on Phase II. And just to give the Board an
update, next week is going to be the grand opening of
Coliseum Gardens Phase I and it's going to be the
groundbreaking for Coliseum Gardens Phase II.

So this request is for construction and permanent
financing. We're asking for approval of a construction
loan in the amount of $22 million, $22,585,000. It will
be a variable construction rate loan for 22 months, and
it's going to be tax exempt bond financing.

Then the structure will convert to a permanent
loan in the amount of $3,815,000 for 40 years at
5.7 percent. The second mortgage will be in the amount
of $475,000 for ten years at 5.5 percent. This second
mortgage is based on the income stream from the Section 8
vouchers, project-based vouchers, that the Oakland
Housing Authority has issued an initial commitment on.

The Oakland Housing Authority owns the ground,
very similar to Phase I and Phase II. There will be a
ground lease for approximately 65 years. It's going to
be a prepaid ground lease. There will be two payments,
one during the construction phase, one during the
permanent loan phase, for a total of approximately a
million dollars.

Back to the permanent loan structure, there will
also be a third mortgage in the amount of $530,000 at
3 percent for 40 years, and this will be FAF funds. This
is a HOPE VI project, and as such there is a HOPE VI loan
also provided by the Oakland Housing Authority in the
amount of $2,273,000. That, along with the City of
Oakland loan for 4-million-6 and an AHP loan provided by
Wells Fargo in the amount of 525,000 will be all sources
of funds that come in with us during the construction
loan. At the permanent conversion, Housing and Community
Development will come in with its MHP loan in the amount
of approximately $9 million.

As part of HOPE VI loan, there will be a
regulatory and operating agreement through HUD. It will
restrict 37 units, and we will be getting annual
contribution contract payments to help with operating
assistance. This is the same structure that the Board
saw in Colosseum Gardens Phase I.

At this point, Ruth Vakili is going to talk more
specifically about the project, and she's going to walk
you through the slides.

MS. VAKILI: Good morning. The project is
located near the BART station in Oakland, as you can see
from this lovely aerial. You can also see the BART --
I'm not finding my pointer here.

MS. WHITTALL-SCHERFEE: There it is.

MS. VAKILI: There it is, okay.

The BART station is over to the side of the
project. You can see the BART line. This is 66th
Avenue, and the project is here.

In the middle of the project will be a 5.7-acre
park site. You can see Phase I that is nearly completed.
Phase II has already started construction, and that is --
maybe we'll get a better view here. Okay. There we go.
Phrase II has started grading, and it is along in this
area.

San Leandro -- 66th Avenue is here. And along
66th Avenue consists of light industrial and commercial
uses, along with residential. And near to the site is a
fire station and some single-family to the east.

As stated previously, this is the third phrase of
the project. The park in the middle of the project is
expected to start construction in the spring. Our
subject property is expected to start construction in
August. Part of our project will also include a 1.3-acre
park adjacent to the site. In addition, the 5.7-acre
park site is in the center.

Our project itself was formerly a park site,
which will -- on which there was some environmental
impact. The remediation for the entire project is
already under way, and clearances will be had for the
project before we start construction. We'll also ask for
an updated Phase I report on the site before we close
construction.

Included in the entire project site is 15,000
square feet of community space, which includes social
services, recreation areas, and playground areas. Here
you can see our job site being the former Coliseum park
site. And this is a view along 66th Avenue.

This is a very nice view of how the project will
lay out. You can see the relocated park, our Phase III,
Phase I under construction, and Phase II. There will be
a component of for-sale housing, which will start
construction sometime next year.

And here's an elevation of the property. Our
project will be -- a portion of it will be built on
podium, two buildings configured on podium, and the other
three buildings will be wood frame slab on grade. The
construction will consist of a mix of 13 one-bedroom, 34
two-bedroom, 45 three-bedroom, and 14 four-bedroom
units.

Here you can see the completed portion of
Phase I, which is already occupied. This is parcel A of
Phase I. Parcel B is under construction and is expected
to be completed at the end of May. The project, the
phase parcel B is already leased up. Occupancy will
begin after completion. Here you can see another
elevation of parcel B.

And here is the rent structure. The rents are
based on -- you can see here, for example, the 50-percent
rents and 55-percent rents are renting at the same.
The -- there is no difference between the rents;
however, the developer has the authority to go up to
55-percent rents if need be. But the rents on the
55-percent units remain at 50 percent at this point, and
these rents are based on the previous rents established
by Phase I.

It's expected that the property will lease up in
four months. Using our underwriting criteria, we
anticipate -- we have given it a total of a six-month
lease-up, which should be more than ample.

MS. WHITTALL-SCHERFEE: This project is currently
at CDLAC for consideration for bond allocation, and we're
expecting and hoping to have that bond allocation by the
middle of this month when they announce the CDLAC allocation.

And with that we'd be happy to answer any questions you may have, and we request approval.

CHAIRPERSON COURSON: Questions on the project?

Mr. Czuker.

MR. CZUKER: Just a clarification. With all of the ultimate sources for permanent financing, will the CalHFA's first and subordinate debts be senior to everybody else?

MS. VAKILI: Yes.

MR. CZUKER: In terms of cash flow, will CalHFA's three loans take priority in cash flow distributions for debt service over cash flow requirements on some of the other loans?

MS. VAKILI: Yes. The three loans are amortized debt, and also the MHP required debt service goes ahead of the residual receipts debt which is the City contribution.

MS. WHITTALL-SCHERFEE: So we're in first, second and third place.

MR. CZUKER: Both in security and in cash flow stream?

MS. VAKILI: Yes.

MR. CZUKER: And you're showing a high year-one
debt coverage ratio on the permanent, but is that solely
on the A series or does that include the stack of the
first, second and third? You're showing approximately a
121 debt coverage, year one in --

    MS. VAKILI: That actually includes our stack.
    MR. CZUKER: And you anticipate that there will
be difficulty in getting that type of debt coverage
versus what appears to be a very low appraisal? Why, if
I'm reading this correctly, is the appraisal at permanent
based on a restricted value of $6 million?

    MS. VAKILI: The appraisal contemplates the
restricted value without the value of the investment tax
credits, so there's always going to be a delta between
the investment value during construction and the value
upon completion. The loan to value with all of the three
loans combined is still 80 percent.
    MR. CZUKER: Thank you.

    CHAIRPERSON COURSON: Any other questions on the
project?
    Mr. Carey.

    MR. CAREY: Could you just explain the backstop
commitment for the project based vouchers.

    MS. VAKILI: The backstop commitment is utilized
in case the HUD commitment doesn't come in time to close
in August. The August start date is very important for
this project to get started before the winter rains and
to try to avoid as much delay as possible. While we're
very confident that we'll get the commitment, the
question is always timing. The Phase II already does
have a commitment from HUD. We don't want to hold up
closing Phase III into September, October and into the
winter for this commitment. And the OHA backstop
commitment is -- of course it's subject to review, but it
is thought to be a very strong commitment.

CHAIRPERSON COURSON: Any other questions? Is
there a motion to approve the project?

MR. MORRIS: So moved.

CHAIRPERSON COURSON: Mr. Morris moves. Is there
a second?

MR. CZUKER: Second.

CHAIRPERSON COURSON: Mr. Czuker seconds. Are
there any other comments? Any comments from the public?

Seeing none, let's call the roll.

MS. OJIMA: Thank you.

Mr. Pavao.

MR. PAVAO: Aye.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Yes.
1 MS. OJIMA: Ms. Jacobs.
2 MS. JACOBS: Yes.
3 MS. OJIMA: Mr. Augustine.
4 MR. AUGUSTINE: Yes.
5 MS. OJIMA: Mr. Morris.
6 MR. MORRIS: Yes.
7 MS. OJIMA: Mr. Shine.
8 MR. SHINE: Yes.
9 MS. OJIMA: Mr. Courson.
10 CHAIRPERSON COURSON: Yes.
11 MS. OJIMA: 06-12 has been approved.
12 CHAIRPERSON COURSON: Okay. Thank you.
13
14 **Item 5. Update on Bay Area Housing Plan Financing**
15
16 CHAIRPERSON COURSON: The next item on our agenda, as we have at each of our meetings, is an update on the Bay Area Housing Plan.
17
18 MS. PARKER: Mr. Chairman, I would add that Kathy and Edwin are coming up to sit, to give you this briefing, that the actual signing of the documents was accomplished in the interim between last meeting and this meeting. And I just -- I can't adequately give everyone a sense of the degree of complexity and work that went into the signatures by so many different entities, but I can tell you that these folks worked night and day and
really did the Agency and the State of California a great
pride with being able to bring this together.
So I just wanted to publicly one more time thank
Edwin and Kathy and really all the staff at CalHFA for
the outstanding work. It was a -- really a historic
moment and very touching moment by many of the people,
particularly those people serving the developmentally
disabled population to be able to see something like this
come to fruition.

MR. GIPSON: Today we just wanted to provide you
an update of where we are since the last Board, and as
Terri just touched on, a lot of hours and a lot of people
came together and worked weekends, evenings, and holidays
with Kathy, who will provide us an update in a moment.
We worked through the Cesar Chavez weekend, and Kathy
diligently worked through the weekend, and we had various
e-mails going back and forth.

Since we last met, we have closed, and we have
some deals. And what is coming in front of you now is a
package, and it's like the initial review package.
There's one basically semi full one, and then there's
just a couple of details on three other projects behind
it. So there's a total of four projects, but I'll let
Kathy just take us through the details.

MS. WEREIMIUK: Before we get to that, what I'd
say is that's not the review package the Agency would have. It is a preliminary package that the Regional Center's steering committee approved when they approved the projects. They allowed the developer to put soft money on the projects and put them in escrow. But we received a preliminary copy, and I thought -- I wanted you to see what we start with.

As Ed mentioned, the Board on September 9th provided a final commitment for this project for 20 million with an initial for an amount of $200 million.

On January 11th, we increased that to a $45 million commitment with an initial increase to $120 million.

When we came to the last Board, we were struggling to close the property. On the 31st of March, we -- all of the documents were signed, although the closing really occurred at 9:00 o'clock on April 3rd, about five minutes before the Department of Development Services had a legislative hearing on the progress on the Bay Area Housing Plan, and that really -- that hearing really timed our efforts.

There were seven -- there were seven sets of documents that were closed, and I just wanted to go through it so you get a little sense of the complexity. There was a permanent financing agreement between ourselves and three nonprofit organizations. Those three
nonprofit organizations signed as 501(c)(3)s, but in this
month they're all changing over to limited liability
corporations that will hold the properties.

There's a loan purchase agreement, the most
difficult document we executed, between ourselves, Bank
of America as an agent for a syndicate of banks, and the
developer, Hallmark Corporation. There was a
construction loan agreement between Hallmark, the
developer, and Bank of America.

There was an agreement between the Regional
Centers and the developer specifying terms under which
they could develop the properties. There were similar
agreements between the nonprofits and the Regional
Centers where they agreed to pick up some liability for
the nonprofits.

And the Bay Area Housing Plan documents were
signed by DDS and the Regional Centers setting up the
conglomerate. In addition to that, there were about a
hundred additional documents, legal opinions and
supporting agreements that came together. Not everything
was finished, but everything that we needed to finish for
the developers to start purchasing properties were signed
and executed.

We're still doing some cleanup work on items.
The creation of the ONCs is a cleanup item. We're
collecting some, getting those reviewed by our bond
counsel who was active in this. We're working through
appraisal requirements. We finalized those yesterday so
that the first properties could be appraised, and the
agreement could be signed today and they could start
appraisals.

We're -- we have our tech people busily involved
in reviewing the master scope so that there's a plan for
what all of the properties will look like, what materials
they would use. That's probably a week away from
completion. And we're working on a -- what's a unique
situation, it's an engagement letter with our
construction inspector where we're not paying them.
That's what -- our legal department's currently handling
that and some other things, so we're still working on
some things that need to be done before the first
purchase of the property by the nonprofits.

But in the interim, Hallmark and the nonprofit
organizations have been able to identify six properties.
They've gotten preliminary approvals to -- from the
Regional Center steering committee to purchase all of
them. We've got four under escrow, which are the ones
that you have in front of you today. We anticipate the
other two will be under escrow.

They have moved forward with their plan. To our
great relief, they are using one contractor as opposed to multiple contractors so that there can be a learning curve, and we can actually expect that the properties, once they start being rehabbed, will move quickly and that the contractor we work -- they work with will be able to understand exactly what's needed. And this will be expeditious.

We made a decision to take only five to six properties through construction at a time, which is the capacity of the general contractor.

On another piece, Bank of America with its syndicate banks expects a closing on that syndication on the 15th of this month, and that will come in advance of the first acquisition closing.

When I came in this morning -- or before I came in this morning, I got several e-mails including critical paths that told me the first property inspections would occur on Monday and that we could anticipate getting our packages by Friday. We have a five-day turnaround to review all of the proposed plans and specifications and for taking it to our -- I anticipate bringing the package to add collateral to the commitment to our senior staff as early as probably two weeks from today.

So we -- we think that this is starting to move.

We've gotten very comfortable with the work that's been
done by all parties to make this efficient, make it -- 
make the construction thorough, and we think it's moving 
forward. I don't know yet if we'll be coming to you in 
July for an additional commitment above the 45 million. 
That really -- that really for us, we want to see -- 
we've heard very clearly from you that you want to see 
how this is going before we come back to you for an 
additional commitment.

MR. GIPSON: And so do we. We'd like to see the 
progress and the status and how it's working before we 
come back.

MS. WEREMIUK: As I mentioned, what's in the 
packages to you and a little bit of what the developer 
has found that we've learned in the last few days, 
property prices are a little bit higher. They are 
able -- they've been able to tie some properties up at 
the asking price, no overbids, and some below the asking 
price. The prices range from 820 to 937. 
The property that's at 937, it has already been 
modified for accessibility, so we'll have a much more 
modest construction schedule and is in terrific shape. 
Three of the properties that they've been able to tie up 
were -- and they've gotten longer time lines in terms of 
escrows only because First Fidelity, a title company, is 
the trustee for three of the duplexes and so we've gotten
some time on the first couple of projects, a lengthy lead
time to work through our procedures as we -- as we work
with the bank.

The properties are in San Jose and Santa Clara.
They're attractive to look at. The -- one of the things
we found in the duplexes or they found in the duplexes is
that they're not able to do any inspections until they
have an accepted offer. That's fairly typical for
occupied properties, so that they're going in a little
blind as they walk in for the first time on the
inspections and seeing the properties.

And I think that's where we are. It's -- we're
encouraged.

CHAIRPERSON COURSON: Questions from the members
of the Board?

MR. SHINE: Could you just review the bidding.
Where are we on this thing? We started at 100 --

CHAIRPERSON COURSON: We're at 40 -- the Board
has approved -- correct me if I'm wrong, but the Board
has approved $45 million in financing. We anticipate
that we'll have future requests for additional increases
in that commitment, permanent financing, but -- and I
think as Kathy and Edwin said, we're also doing this
thing in phases because I think the total is 120 million.
We really wanted to do it in phases where we could take a
look at the progress and make incremental increases in
our commitment as we saw progress, as opposed to the
initial thought of giving the entire commitment.

MR. SHINE: That's my recollection. We started
at a ceiling of 120 against which we're making some
advances.

CHAIRPERSON COURSON: We've done two approvals.
The first was for, I believe, 25 --

MS. WEREMLUK: Twenty.

CHAIRPERSON COURSON: -- and second for 20.

Twenty and 25, I'm backwards.

MR. SHINE: Are we still looking at 120 million?

CHAIRPERSON COURSON: Yes.

MS. WEREMLUK: At this point, yes, although we
haven't really looked at the implications of the cash
flows that we've received. On the properties, I've
looked at, they're running a bit higher than what we
estimated, and the first package that I got, I've
identified at least one error in the way they determined
our reserve. So it looks to me like the properties are
running about a million-7 as opposed to the million-4
that we anticipated.

But we -- we haven't been able to analyze this
yet or start to analyze it as we just received it
yesterday, and we don't know what the trends are. We
were -- what they haven't found is that the markets in
the Bay Area, we haven't found significant price
decreases in those markets.

MS. PARKER: And Edwin and Kathy -- our business
plan that the Board's going to look at today, presumes
about $75 million worth of lending for the Bay Area
Housing Plan.

MR. GIPSON: Next fiscal year.

MS. PARKER: Next fiscal year.

CHAIRPERSON COURSON: Including the existing 45
million?

MR. GIPSON: No, it's an expectation that we'll
get an additional 75 million through the course.

CHAIRPERSON COURSON: So in other words, it's
commitments to really fund out, if you would, the
original $120 million.

MR. GIPSON: Correct.

MS. WEREMLUK: We anticipate we'll start -- we'll
be starting to close on the Bay Area properties and put
our money out during this fiscal year, not commitments
but actual bond sales in permanent loan closings.

Probably starting somewhere between February -- I would
assume right now looking at this, that the earliest I
could anticipate we would be doing those closings is next
February. And I don't quite know what the volume will be
in terms of closings between February and June.

MR. SHINE: Back to the reserve that you were
talking about, is that the $5 million reserve that you're
talking about?

MS. WEREMIUK: No. The $5 million has already
been paid. We -- what the Agency is requiring is
approximately an additional $12 million. It's one year
of debt service paid up-front that we are holding as a
bond reserve in the unlikely instance that there is a
failure of the legislature to appropriate that. We would
have the five million plus the --

MR. GIPSON: Debt service reserve.

MS. WEREMIUK: -- debt service reserve, about
17 million available to the Agency to assist us in the
year that it would take us to liquidate the properties if
there was a complete failure in funding.

MR. SHINE: Are you taking that down
incrementally per house or something?

MS. WEREMIUK: Yes. We're taking down that
reserve per house, and we will be taking down the
5-million reserve which B of A is currently holding per
bond sale so that if we -- we would get that at each --
it would come per house, but it would come at -- since we
anticipate on the bond sale, we'd have a bond sale and
then a closing, we'd be closing on the first 120
properties, so we would get that proportion of the 5
million with each closing transaction, but we would also
get the debt service reserve.

So there are two reserves that are in place to
assist the Agency. Those reserves ultimately will go
back to the -- to the Regional Centers and to DDS and, I
believe, ultimately they're planning it would go into
some kind of affordable housing fund, if everything works
out as we currently anticipate.

CHAIRPERSON COURSON: Thank you. It seems
certainly we're moving forward.

MR. GIPSON: Yes.

CHAIRPERSON COURSON: We've got some momentum
now, and we'll look forward to another progress report in
July and to see where we are and what the needs are. And
to both of you and all your staff and I know counsel and
everybody has been involved, and I realize it's been a
Herculean task, but it's also good to see some product
out there. Thank you.

MR. GIPSON: Thanks.

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Item 6. Discussion, recommendation and possible action
relative to adoption of resolution approving
Five-Year Business Plan for fiscal years
2006/2007 to 2010/2011
CHAIRPERSON COURSON: The next item on our agenda, and really where we'll spend the balance of our time, is taking a look at the five-year business plan. I know this -- we went -- as you know, we -- probably Terri said, we went through this at the last Board meeting, and this will be sort of our final take, if you will, or approval of the bill -- five-year business plan. It's had some, what I would term, fits and starts over the last 30 days, but I think now, based upon the information that Terri gave and the Governor's announcement on homelessness and so on, that we have a plan that will allow us to really move in the direction that we've all wanted to move, as opposed to sort of flatlining or standing in place.

So with that, Terri, I'll let you take over and share the rest of it.

MS. PARKER: Thank you, Mr. Chairman.

I am going to do an introduction, and obviously the staff will go through the various portions of the business plan. I just want to call your attention to at your chair there is a -- a handout of slides that we'll be going through today, and there's also a new cover letter from me to the Board. This one has a far more auspicious beginning to it than the one that I sent to you several weeks ago where I said I was offering you a
business plan. This one starts out with saying that I'm especially pleased to offer for your consideration this business plan.

As I said in my opening remarks, based on the discussion just yesterday, we thought -- and I think this is particularly -- and maybe Curt Augustine will add his comments -- particularly important, and the Secretary thought it was particularly important for the Board to consider what -- what would really be presuming, you know, the planets align, the kind of business plan we would want to be telling the affordable housing community that the California Housing Finance Agency was prepared to offer for consideration during the next year and for a five-year period.

We will be, based on the Board's actions today, going back and updating the business plan document which we will publish. As you're aware, many of you who've sat on the Board for a number of years, sometimes the Board has made some changes, and we will go back and reflect the final business plan and publish that.

CHAIRPERSON COURSON: Terri, let me ask you, interrupt you. So the detail behind the main pages that takes us program by program, historical and budget, if you will, budgeted production volumes, those numbers will all be changed now to reflect the new $14 billion as
opposed to the lower figure?

MS. PARKER: Correct, John. We won't go back and
update the estimated current year numbers, but we will go
in and reflect the program dollars we're proposing by
program area. And in at least one case there is a new
program that we didn't include in the document itself
that we will be adding, but we will certainly be
discussing that with you.

CHAIRPERSON COURSON: And once that's done, can
that be shared then with the Board?

MS. PARKER: Absolutely. It will be the
published business plan. And I -- you know, again, I
thought about this, and we did this very, very quickly
yesterday. And while the business plan portion of this
is updated, the item that will follow on the
administrative budget has not been updated. But we
thought since this is a document that gets put in our
rating agency's analysis -- we'll be going to see the
rating agencies in August -- we wanted to have the Board,
you know, not have any kind of a negative, but be able to
reflect positive goals.

So we have put together, and we can talk through
this document, a slide presentation of what the overview
of the business plan will be. And we've done the slides.
There's quite a bit of information here. We're going
to try to go through these quickly because I think it's
about 40 pages. We have done the information here,
though. You can take it back and look at it at your
leisure. We'll try to go very quickly. However, if
you'd like us to slow down, please let us know. But for
the moment we'll operate on trying to go through this
document.

As I've just said in my overview, we are in touch
on the accomplishments. We did a little bit of that at
our last meeting in March. Clearly this business plan
does include more detail than what we sort of chatted
about in March. What we talked about in March was really
the utilization of the housing assistance trust funds
from which the business plan production targets would be
based.

And we've done that from the standpoint of we
really feel that is the crux of the policy issues for the
Board to be considering because those -- the distribution
of those dollars, that scarce resource we have, really
sets the -- I think the policies and the objectives of
what the Board wants the staff to be accomplishing.

We also will talk a little bit about some of the
major initiatives we have up for this upcoming year. One
of them is a discussion with, a partnership with, Fannie
Mae. This comes about on the homeownership side and to
some extent insurance, a little bit, because of work that
I've been doing with the National Council of State
Housing Finance Agencies where we've talked about the
housing finance agencies in totality trying to brand our
business with Fannie that clearly needs a predictable
source of goal rich loans to meet their HUD goals.

And so we are trying to see if we can develop a
partnership with them to the benefit of what we can be
offering our homeownership programs and in that sense
the -- to the mutual benefit of Fannie in California.

We continue obviously to have initiatives in the
Bay Area Housing Plan. We will talk in greater depths of
the use of technology as part of this business plan. And
one of the things that we touched on a little briefly in
the past meeting is to discuss a proposal that we have to
look at trying to develop some kind of a permanent
headquarters in Sacramento, either through long-term
lease, ownership, some kind of acquisition.

I have put down here the challenge of recruiting
senior executive managers. Hopefully with the continued
dialogue with the Governor's Office and really their
understanding, better understanding, of what the Housing
Finance Agency does that is unique from the rest of state
government, the fact that we are really funded and a
concern of the investors who participate in our programs,
not taxpayers, and the need to be mindful of their
investments, that we hope to continue to find and
attract, recruit talented individuals to deliver these
initiatives for consideration to the Board.

With that as an overview, I just want to draw
your attention to the next page which is the use of our
housing trust funds. We, I think through the discussion
last time that Bruce gave you, are trying to somewhat
discipline ourselves to an annual amount of $65 million
in housing trust funds distributed among homeownership,
multifamily and special lending programs as a way to
achieve this $14 billion over five-year business plan in
totality.

There are two sources of funds on this table.
One of them is our traditional housing assistance trust
fund. The other one is funds that come from Prop. 46
through the residential development loan program, and
that is something we're introducing as part of the new
locality program.

But as we go through our presentations, we'll
talk a little bit about the better use of housing
assistance trust funds during the current year and, in
fact, even with reducing them substantially from what
they were the previous year, we have been able to grow
our lending, particularly in homeownership. So we will
talk about this as we go through here.

The one program I also would highlight, although we talked about this at the last meeting under multifamily, is the introduction of a new AHP GAP Substitute Program. Putting $10 million into it of housing assistance trust funds, we expect to be lending about $6 million, which takes us into our $65-million disciplined budget mode. Obviously we will try to do it as much as we can depending on the use of housing assistance trust funds in totality, but this is a GAP financing program that we talked to the Board a little bit in our last Board meeting, and Laura will be here when we go to multifamily to talk a little bit more it.

But let me --

CHAIRPERSON COURSON: Can you -- can you explain the difference between program budget and HAT budget?

MS. PARKER: Yes. The program budget includes -- these are initiatives and includes both housing assistance trust funds and Prop. 46 funds.

CHAIRPERSON COURSON: Okay.

MS. PARKER: The next column is the HAT budget, with only our housing assistance trust funds, and then the next is just to give you what we anticipate of HAT fund utilization. We expect for those funds that are Prop. 46 -- and that's primarily again the residential
development loan program -- that we would commit all of those funds. But we thought we would do this because, again, this is really the - these are the guts of what is the policy consideration for the Board.

So if there are no further questions, Gerry, I'll let you lead into going through the homeownership slides.

MR. SMART: Thank you, Terri.

Good morning, Mr. Chairman, Members of the Board.

What I'd like to do first is kind of do a quick review of the accomplishments in homeownership, then I'll talk about some of the -- what our portfolio looks like today. We have several slides that will show the demographics. And then we'll talk about the strategies and our business plan for the coming fiscal year.

As you can see on the slide here, we truly expect to exceed our first mortgage loan volume by about 150 million. As a matter of fact, as of today or yesterday, I should say, we're already almost at 1.2 billion, which is our goal for the year. With the added 150, we probably will end up about 5200 loans total in our first mortgage program.

We have really seen a remarkable volume in our -- and acceptance of the interest-only, 35-year PLUS program since we introduced that a year ago March. As of the fiscal year, we've purchased almost 1700 loans for about
460 million. The unique thing is the IOP loan is now representing about 40 percent of our total volume, and we expect that probably will increase as some of the major lenders come on line. With Countrywide coming up, they've assured us that they'll be starting, I think it's May 15th. So we'll see another surge in IOP.

We introduced the 40-year, 100-percent loan this last March. We've already taken in 62 reservations for nearly 17 million. That won't generate the type of volume that we're seeing with the IOP, but I think it will represent a significant amount of business for homeownership.

We have certainly increased our outreach efforts. We've added three new trainers and are now conducting at least 25 or more training sessions or seminars a month, and that's in addition to all the outreach efforts which include trade shows, homebuyer fairs, kick-off events, grand openings at new developments, conferences, guest speaker arrangements at industry trade associations and so forth. And we'll continue that as we go forward in the coming fiscal year.

We continue to achieve a significant volume in low-income lending. 43 percent of our total volume goes to those first-time homebuyers. And our Affordable Housing Partnership Program, AHPP, has also -- has
expanded. We now have almost 400 new programs in about
240 localities around the state. That's city, county and
redevelopment agencies. Those programs are providing
about 33 million in down payment and closing cost
assistance to our homebuyers.

This slide gives you a picture of where we are in
our down payment assistance. You see in 2001 and '2 the
primary programs volume was with our CHAP program and
CHDAP. CHAP, we had 19 and a half million, and CHDAP,
which we had just started, was 13.5. You can see that
CHAP continued to increase through the next four years,
but last year, as you know, we have made some changes
because that was funded out of HAT, along with the HiCAP
program. It became necessary for us to reduce the
volume. And the change we made there was to target CHAP
to FHA loans.

And with the HiCAP, we -- as you can see, it
started off as a pilot program back in 2001 and took hold
and become a significant part of our program, offering
$25,000 junior mortgages. Again, last year it was
necessary for us to control that. And we reduced the
loan amount to 15,000. This year it's a little more
moderate and -- but very, very successful.

And the CHDAP program, I think we're going to
come out in the neighborhood of 28.6 million. It's a
little under our goal, but it's within control. And --

MS. PARKER: The good news about this slide,
folks, is not that anybody should think that we are doing
less lending. The good news about this slide is if you
look at particularly the green bar and the very deep blue
bar, that these are down payment assistance programs
using the Housing Assistance Trust Fund.

The fact that we have reduced those bars in 2005,
2006 and done and done what we're projecting to do, $1.35
billion worth of loans, that's the -- that's the success
story, because we reduced our dependence on housing
assistance trust funds to make those loans, thus either
reducing the need of housing trust to come out of our
indentures or being able to redirect those housing
assistance trust funds to other very worthwhile programs,
particularly programs like Habitat, homelessness, and
other multifamily programs.

MR. SMART: Just to say, we're very pleased with
the performance of these down payment assistance programs
that are funded out of HAT and Prop. 46.

This slide illustrates where we are on our first
mortgage program. That consists of three products today:
the 30-year fixed, the 40-year fixed and the
interest-only 35-year fixed. Back in 2001/02, our goal
was a billion dollars. As you can see, we have achieved
that, and we've continued to do that every year since.

The portfolio now totals 26,822 loans. What's
significant about that is it's the first -- first time
that we have turned the corner. We have been losing
portfolio for the last couple of years through
prepayments, and now we've finally turned the corner and
are on the positive side. We're increasing our total
portfolio.

Delinquencies have been real -- I should say
very, very good for us. They're 4.7 percent total
portfolio. And our conventional loan, which is the
majority of your new loans, it's up 2.1 percent. So
we're pretty pleased with the performance there. And we
have no REFs. I think we've only had one since the
beginning of the fiscal year, so that's been pretty good,
although that will probably change going forward.

This -- this slide -- illustrates the makeup
of our loans as far as property type. In 2001 we only
had 42 manufactured housing loans. We had 22 percent of
our loans in condos or attached PUDs. And the majority
were, of course, single-family detached. You can see
that over the last five years that has changed, and we're
now at 50-percent condo. And that will probably grow as
we go forward.

And you can also see that in 2001, total loan
volume was 6700 loans, almost 7700 loans and has
dropped. We're down to just under 5300 loans. I think
the primary significance of that is -- is the price
appreciation we've seen in the market and rising interest
rates. It's reducing affordability to the level of
homebuyers that we're serving. So it's had a profound
effect on total loans, although our dollar goal volume,
as the previous slide indicated, shows an increase.

CHAIRPERSON COURSON: Let me just make a comment
here. I'm sort of struck by the manufactured housing
number going to, I think, 207 units, if I'm correct.
That in my mind is clearly a reflection that the private
market has moved away from that lending. Never a day or
a week goes by that another major lender doesn't withdraw
from making manufactured housing loans on real property
just because of the significant delinquencies and the --
and the value issue, initial appraisal versus the value
of an REO.

So I would just plant the seed that we may be
getting adversely selected because as the conventional
markets moved away from a product that has demonstrated
large losses upon foreclosure, we may become the house of
last resort. So we may want to think through our
manufactured housing program and exemptions to that
product.
MR. SMART: We do look at those closely, and we do follow Fannie Mae guidelines on the approval of those manufactured housing.

CHAIRPERSON COURSON: So did the lenders that now have the foreclosures. And the problem is even the Fannie Mae guidelines, when you foreclose and you go down and get a current appraisal, what you can sell it for, there's a substantial diminution in the value.

MR. SMART: There is the one significant point there where we differ with Fannie Mae in that we have restricted our loan to value to 90 percent, whereas Fannie will go up to 95. So we have a little better cushion there. But, yes, we do need to follow that and keep a close eye on manufactured housing.

This slide is to illustrate the -- where we are in the insurance type. As you can see, in 2001 we were predominantly an FHA conduit. 92 percent of our loans were FHA and 4 percent were conventional, and that has shifted over the last five years. We are now primarily doing conventional loans and either mortgage insured by our own mortgage insurance fund or covered by GAP. Those GAP-funded loans are basically loans that are less than 80-percent loan to value.

That's not to signify that those homebuyers aren't actually putting 20 percent down. A lot of those
include huge down payment assistance programs, both by
our programs and locality assistance, so through the
Affordable Housing Partnership Program and other
programs.

But it's significant that we're seeing a change.
And this is the first year in which our conventional loan
business has exceeded the FHA volume.

As far as the demographics on our portfolio, we
are -- in 2002, 71 percent of our loans went to minority
households. That has changed in the intervening years.
It's reduced to 59 percent. Still, I mean, a good
figure, but it's decreasing, and we're seeing the largest
change, of course, in Hispanic volume. And I attribute
that again to the change in affordability and the
product. We offer higher interest rates and higher
loan -- I mean home prices in the market. And it's
having a profound effect on that -- that group.

CHAIRPERSON COURSON: Mr. Carey.

MR. CAREY: It's an interesting contrast. USA
Today had a story today about the surnames of homebuyers
throughout the country. In California, the top five
surnames of homebuyers last year were all Hispanic
surnames. So that's kind of an interesting contrast to
the picture we have right here.

MS. PARKER: Well, Mr. Carey, I think you can see
that in 2002, 57 percent, we have really led in this
area. And, you know, it's been -- it's declining. This
is the biggest drop that we've seen, really, in looking at
the data that we've been, you know, tracking for last
four or five years.
I think because of seeing this, I think all of us
were sort of taken aback, and I can tell you that we'll
be having some discussions with our marketing folks.
But, you know, I think as Gerry said, you're going to see
the chart to follow.

MR. SMART: I would like to say that our outreach
efforts have been significant to all of the minority
lending, and particularly Hispanic. We have staff that
are bilingual and do trade shows at homebuyer fairs that
are set aside for Hispanics. So we do try -- plus we
have brochures and material that is in Spanish, so we do
try to address that as best we can.

MR. AUGUSTINE: This is just a one-year drop.
This is not really a trend, right?

MR. SMART: It's -- it has been declining from a
high of 72 percent back in 2002. Every year we've seen a
decline. This year is the most significant change, so
we have seen --

MR. AUGUSTINE: Whether it's a one-year
aberration, it's not --
MS. PARKER: I think this is such a
great picture, you know. This tells a lot of the story
about homeownership and the ability for homeownership in
totality. If we have declining loans --

MR. AUGUSTINE: I would caution that we should
not draw any conclusions from race-based lending to home
pricing. There's a lot of factors that are maybe just a
one-year aberration too. I think that that's a
conclusion we need to be careful of drawing.

MS. PARKER: I don't think we're intending to
draw any.

MR. AUGUSTINE: Well, you've said it a couple --
it's been said a couple times that it's dropped because
home pricing has gone up and interest rates have gone up.
So I just would caution you, be careful about discussing
it in that manner.

MR. SMART: Well, here we'd like to illustrate
the change in the market. In 2001, the median California
price was $297,000 and has nearly doubled to $569,000.
It's had a profound effect, I think, on the total number
of loans that we've seen.

The light blue chart is the median income for our
portfolio, our loans. In 2001, that was $36,200. In
2005, that had increased to $55,100.

The green is the CalHFA median loan amount. In
2001, that was $126,350, and it only increased to $235,000 in 2005. So we're still well under the market, but finding affordable housing is becoming a much more difficult task.

MS. PARKER: I think, Mr. Augustine, too, and maybe it's kind of inappropriate on our part to, you know, make some presumptions because I think that that's probably what we've been doing -- but if you can look at this chart, you can see that the gap between income and sales prices continues to get wider and wider and wider. And that's why, you know, the percentage of people who would qualify are picking up those statistics and it's 14 percent.

MR. AUGUSTINE: Oh, I understand that.

MS. PARKER: So, yeah, it -- it -- I think it is a challenge to all parts of California's economy and population.

MR. SMART: This is a -- kind of a reflection of where we are in our Prop. 46 down payment assistance programs and the RDLP. Those programs started back in 2003. We had about 270 million total that the Agency was administering. And we have utilized about 55 percent of that in the down payment assistance programs. The RDLP, that 75 million came from the insurance fund, and I believe that if the bond issue is passed, there will be
an additional hundred million.

   MS. PARKER: Yeah, just to add, I think given the
sheet that we passed out, this is a good chart to show
you, that the bond includes $200 million, approximately,
to -- for the CHDAP program. Of that, a hundred million
dollars could be utilized for lending under the RDLP
program.

   MR. SMART: And a hundred million will go to
CHDAP, and so that will increase that balance. Of
course, by the time that comes about, that would be --
should be significantly less than 50 million balance.

   Our new strategies, we are -- heretofore we have
not really identified the loan officers that participated
in our program, although we certainly knew what the
lenders were, where they came from, the localities, the
counties and so forth, but going forward we are tracking
our loan officers and that would play into the lead
generation program that we are attempting to develop, and
I'll talk about that in a second.

   As Terri indicated, we have made some changes in
the past to our HiCAP program. We reduced it last year
to 25,000 to 15. This year we intend to expand that
program to all high cost areas that are basically
underserved. That will be 18 counties, mostly coastal
that go from Marin down to San Diego. That's to improve
our geographic distribution.

We have some major counties like Los Angeles and Orange County that are underserved considerably, and this is an effort to -- to get some parity there in our lending. It will, though, necessitate some changes in the loan amounts again in order to remain within our funding levels that are available. And those changes will probably come about before the first of the fiscal year.

We'll continue to provide training to loan officers, processors, as we go forward. As explained earlier, we have hired additional staff. Those efforts continue, and we are in negotiations with Fannie Mae. We have talked to them several times about a potential mortgage backed security program on the conventional loan side. As you all know, we operate a whole loan operation, and this will be a venture into the MBS side if it works out. These loans will come under Fannie Mae's My Community Mortgage Program, and it looks so far that Fannie Mae will be willing to give variances so we can match up our MRB type loans with their My Community mortgage. We're still looking to see if this is economically feasible and what Fannie Mae will be willing to consider.

As indicated, we are in the process of developing our lead generation program. If I can find my notes on
that. This is a tracking system where we will refer
those homebuyers, potential homebuyers, that call in on
the 800 line to actual pre-trained and pre-selected loan
officers. And we're going after those who are most
active with the program. We'll probably start out with
about a hundred of them, and that over time will be
reduced to around 60.

But what we're attempting to do is make sure that
the interested parties who call in are actually given to
loan officers who know our program and will turn those
loans -- those potential leads into actual loans instead
of flipping them into some higher cost product. We're --
we're pleased with the performance -- the development so
far. It will be a mirror image, so to speak, of the
CalPERS lead program, and I think it will be a big bonus
to us going forward and should there be a positive
increase in the total loan volume as we turn these
potential leads into CalHFA loans.

We'll certainly continue our efforts with
marketing and media resources to generate telephone
leads. We continually have -- staff and Terri and the
other senior managers have been on the radio and
television interviews to highlight our programs and
generate new leads, and it's been remarkable the amount
of phone calls that we do receive. We can see it. As
soon as those radio interviews are held, immediately we
get a huge volume of increased calls.

And as I've indicated in the past, we've been
working to replace our legacy system, our loan
reservation system. We're working with Eclipse, a
vendor, to complete the review of our current portfolio.
They've done an as-is analysis. They've conducted better
business practice reviews with other HFAs and several of
our major lenders and are completing the development of
the user requirements going forward and will conduct
software analysis and then develop the project initiation
documents. They'll make a recommendation whether we
should buy or build a system and help us with the RFP
that we'll put out.

That first phase of the development of this new
system should be completed by July, and then we'll move
into the second phase, the selection of that new vendor
to either buy or build, and it will probably take about
18 months to actually complete that process.

CHAIRPERSON COURSON: Let me just go back and I
mentioned this to Ken Giebel earlier. The one thing that
strikes me is my suspicion that probably 90 percent of
our single-family business comes from about 10 percent of
our approved sellers. And so as we market to those, it's
sort of like preaching to the choir, in some respects.
We go back and market to the loan officers and the companies that CalHFA is a product prominent among their offerings, and we have a substantial number, a remarkable number, of lenders who are proved, approved sellers, who can't spell CalHFA. And particularly after the last two or three years, they've forgotten it because it just was irrelevant in their drive to refinance the market, the world.

Having said that, we're in a marketplace now where every producer, every producing mortgage banking, mortgage lending company, is looking for product and screaming out for alternatives in products.

And so I think the other opportunity for us, and particularly to spread CalHFA over a bigger base of sellers, which is a good thing for us, is to try to figure out a way to go to those sellers who are dormant, in effect, who we carry on our rolls, who do little, if any, business with us and either suggest that they need to get on the train in terms of making it -- and help them do that through our training or determine if they really are interested going forward in participating in the program.

MR. SMART: Our business plan for the coming fiscal year is certainly aggressive. We have increased that from 1.2 to 1.5 billion. We think this is a very
doable goal and achievable, and I believe so because of
the various strategies that we'll employ and the new
products that are involved: Interest Only, the 40-year
product, our lead generation efforts, our outreach
efforts, and certainly the lenders coming onboard that
will promote those programs. We think it's a very
doable program.

And in a context that even though our down
payment assistance has been moderated to some degree
on -- for CHAP and HiCAP, we do think that this is an
achievable goal. In fact, I would not be surprised if we
exceed that considerably. The 1.5 billion represents
probably in the neighborhood of -- based on today's
average loan amount -- about 6300 loans. So that's an
increase, where we have -- as the previous slide showed,
we had been sliding.

MS. PARKER: Mr. Chairman, we'll move on to
mortgage insurance, but I do want to make one final
point.

MR. MORRIS: Just one question.

CHAIRPERSON COURSON: Mr. Morris.

MR. MORRIS: The memo that we received several
weeks ago had 6.5 as the activity where now we're at
8 billion. Could you just -- what happened over the last
two or three weeks to change it, to increase it to
1.5 billion?

MS. PARKER: We -- we made an assumption that
because of the lack of having staff -- actually, I was
just going to point out, Mr. Morris, that Gerry has been
running the homeownership program single handedly for the
past year. They're without a director of homeownership,
and his colleague Ken Williams retired last year, and
it's just a matter of being able to have the staff and
the resources to go out and market and produce those
levels.

So we think with the ability to hire, you know,
one and a second person in the homeownership that we will
be able to be as aggressive as we have resources to be.
So we took the business plan from reducing it to maybe a
status quo of about 1.3 billion and moved it up to 1.5
billion because that is how much resources that we have
to actually lend should we have the ability to implement
all of these new programs and technology.

MR. MORRIS: So resources based upon the staffing
that you currently have.

MS. PARKER: Staffing. It is all about staffing.

MR. MORRIS: Well, is there -- maybe this isn't
the time to do it, but would there be maybe -- should we
readdress that staffing need? Because if it really is a
matter of -- I don't know what the additional cost was of
this individual, but is there any way to ramp this up by
more with more support? In other words, at what point do
you feel that additional support doesn't help, or would
additional support enable you to go from 1.3 to 1.5 to
1.75 or whatever it is? In other words, I -- you know, I
don't see where the one person, how you get the 200
million more or -- I mean --

MS. PARKER: Well, it's -- part of it is --

MR. MORRIS: Because you addressed that in your
memo before about --

MS. PARKER: Part of it --

MR. MORRIS: -- the problem of --

MS. PARKER: Part of it is --

MR. MORRIS: -- personnel.

MS. PARKER: -- and we have, the Board in
totality, looked at -- you know, the resources that we
have to loan are based on the ability for us to get bond
allocation from the Treasurer's Office. We have been
very successful the last couple years at getting a good
amount of allocation, unlike previous years when our
allocation amount was maybe about $200 million, which we
leveraged with taxable bonds and recycling of funds.
But because the demand on tax exempt bonds has
not been as great by other areas of the industry,
particularly multifamily and other some -- other
single-family issues, we have gotten more of that
resource than we have in the past year. So we have
developed a five-year business plan making some
assumptions about having that tax exempt bond financing
available to go to the capital market and sell bonds.
We are not like a private lender that we can do
that infinitum. We are -- we are confined by how much
tax exempt financing we get. So while we have more
resources than we had in prior years and we're going to
have to be -- come up with products to continue to be --
do our market share, we all -- we will -- we'll always be
constrained by how much the bond cap that we have to lend
out.

Part of the other reason again, is we came out
last year with the 535 program. We've come out with a
40-year loan. As the market adjusts to those programs
and other lenders operate them, our feeling was that
because we -- we might not have the capability inside to
come up with new and creative programs that our market
share could stay stagnant and -- and/or decline. And the
idea about being able to hire a mortgage banker that
would have a better sense of developing those products,
that we could continue at a higher level.

CHAIRPERSON COURSON: I would respond, and I
think Terri is exactly right. I think that the ability
to hire that director is only a piece of it. But we
really, I think, before -- we have the confidence now
based on what we know now versus the last time we looked
at this a couple months ago, is the ability to do that and
be competitive with hiring that person.

Because with -- frankly, without that, we just
have to keep -- we have to keep the trains running and
deal with the volumes that we're getting at the present
time. You've seen now we're talking about new product
development. Some of the slides are more trainers, more
outreach to lenders, my suggestion of going to those
sellers. Those were things that likely would fall to the
wayside without a director and somebody in there to push
those initiatives, because why bring the staff in to do
it and then have the expense and cost without the ability
to manage it.

So I just look at it as it's -- when you put that
director, that management position, assuming you can,
that will be able to drive those other initiatives.

MS. PARKER: I would hope the Board would also
realize our business plan for the current year was 1.2
billion. We have done 1.35. We're going to do as much
as we can. You know, that's certainly --

CHAIRPERSON COURSON: Well, in a rising rate
market historically we will do a bigger -- we will do a
bigger volume. As rates go up in the conventional
market, our tax exempt capabilities in providing housing
for first-time homebuyers becomes more significant, and I
think that's historical.

MS. PARKER: One other thing --

MR. MORRIS: So the real answer is that adding
additional people won't necessarily increase -- you're
limited somewhat by your cap, depending on how close you
are to your cap.

MS. PARKER: Well, we are -- you know, Bruce can
speak to this, but I think we are comfortable with what
we have here as far as access to bond cap.

One other point that I think it's significant to
add for the Board's consideration, because, again, this
goes to all of you, your direction to us, we -- it's not
to us just about lending 1.5 billion. It's really where
and to whom that we're lending that. You know, Karney
Hodge used to -- when he was the Executive Director, used
to get teased before the Legislature because Karney could
do all the lending in Fresno that anybody could ever
conceive. We're trying to use this billion-five to push
into those areas where there is least affordability, to
those income limits -- to those people with incomes where
they have, you know, the biggest gap.

So that's the reason why we changed, for example,
our HiCAP program to put something in Los Angeles because
we're not serving it as great. So we're going to try to,
you know, not just do a billion-five, but to do it in
areas where we're, you know -- we have more geographic
distribution, you know, try to hit more loans to people
who are at less than 80 percent of median income. Those
kinds of things we also thought were important
programmatic considerations for us to make.

CHAIRPERSON COURSON: Okay.

MS. PARKER: Gerry, thank you.

CHAIRPERSON COURSON: We have one more question.

MR. CZUKER: Thank you, Mr. Chairman.

The -- I think to also address in a slightly
different way Mr. Morris' question, I do believe that
with the rising interest rate environment and given the
creativity of what CalHFA has focused its attentions
on, with additional staff the volume could be increased.
I think there is the potential for additional debt limit
allocation and tax exempt. That is available potentially
if the demand was there. And I think that if there was
no bond limit allocation available, just as CalHFA has
done in the past, they would come up with creative ways
of recycling old bonds or layering taxable on top of tax
exempt to stretch the allocations that it does receive.

In both cases what that means to me is the
volume could be increased with additional staff. And that raises the specter for future debate for this Board of not only how much additional staff and how many additional bodies would be enhancing the public purpose of reaching out to those in need throughout the state, but also to attract the quality of the type of individuals that we'd like to see to address the need to raise the salary limits of everybody from the top of the line down. Because without raising the top salaries for the top executives, those lower salaries that are pegged off of some of the higher salaries means that quality people are moving to the private sector, and it's very, very difficult to attract the caliber, sophistication of the type of people we'd like to see working for CalHFA. So I think that we need to address both salary limits and additional staff. And I think the ability to reach out and do more does exist and that this is sort of a comfort zone that we're seeing that is achievable that is being proposed, but if we really wanted to tax and stretch the resources, that these limits could be enhanced and greatly increased with a little pushing.

CHAIRPERSON COURSON: Mr. Carey.

MR. CAREY: I just wanted to comment, back to that median income sales price chart. I think it's impressive that the Agency has done so well at expanding
the reach from the available incomes up to the house
prices. And many would watch the house prices go up and
simply write off that income sector at the bottom. I
think it's important that we all remember that that light
blue is the people who simply don't become homeowners.
And I think that's the toughest challenge, is that reach
down to that income level that is being left behind, even
while we recognize the fact that there's a big segment
there that, without CalHFA, would not be homeowners today.

And I think that's the challenge. I don't think
it's going to get easier to continue to reach down there.
I appreciate Terri, despite the fact I think there's
nothing wrong with lending in Fresno, the focus on the
who that we're lending to.

MS. PARKER: One other thing that I didn't
mention that I think is important too, we have very much,
the last several years, been focused on trying to get
homeownership through our lending. And last year we
talked about this and with the successful passage of
legislation to create the residential development loan
program, we're really trying to get in on the housing
stock side and -- because that's really -- the dilemma is
supply and demand. Insufficient stock raises prices.

And so to the extent that we can get this program
out -- Doug is going to talk about it in a little bit --
that is another approach of getting at the stock side
that we can then come in and have, you know, housing that
our customers can qualify for. So we are very, very
excited about that.

CHAIRPERSON COURSON: Okay.

MR. CZUKER: One other thought that I would
share, and that is I believe what we're going to be
seeing in the coming weeks and months are projects that
were on the board on a conventional basis no longer going
forward on a conventional basis, and perhaps, talking
about stock, there is an opportunity to reach out to both
municipalities and developers alike to say maybe you
should reconsider what was going to be a high-rise,
mid-rise, low-rise apartment or condominium project
downtown L.A., downtown San Diego, in high-cost areas,
metropolitan dense demographics where the economics no
longer work in a rising interest rate environment, and
those projects are being put on hold or scrapped where
the municipality can become your advocate to reach out to
those developers and reposition those new development
opportunities into affordable housing with some subsidies
that are being discussed and some creative financing that
only CalHFA can provide.

Additionally there have been those that have
taken apartment stock off line to do conversions to
homeownership, and many of those are having difficulty as well. And so I think in terms of just identifying stock, there is a unique opportunity perhaps to take projects that are stalled and reposition them from market rate to affordable housing stock for CalHFA's resources.

CHAIRPERSON COURSON: And clearly we've always intended that -- to do that in partnership with those municipalities. That's been the plan from when we converted those funds from down payment assistance from the onset.

Mortgage insurance.

I will note that the Chair does not plan to take a break, so if you need to excuse yourselves or want some coffee or so on, you're on your own.

MR. CARTER: Good morning.

MS. PARKER: I want to make sure I introduce Greg Carter.

Greg, would you walk us through the mortgage insurance slides, please.

MR. CARTER: Sure.

Let me first take a look at our accomplishments and address each of those. The first one obviously shows that we exceeded our 485-million goal for the year. Some of that can be attributed to the initiatives we're involved in that are reflected on the slide and
marking -- the marketing of conventional product.
The first point we did during that -- at the
beginning of the last fiscal year, we reduced our
mortgage insurance coverage from 50 percent to
35 percent, effectively lowering the premiums to the
homebuyers. And while that perhaps played a small part,
it really did add to the affordability and we think made
the conventional product more attractive.

The other initiative that we were involved in was
offering what we call the homeowners -- HomeOpeners
Mortgage Protection Plan, which essentially is -- insures
mortgage payments should a borrower become involuntarily
unemployed. That is actually provided through our
reinsurance agreement with our partners, and it is at no
extra cost to our homebuyers, in fact, no extra cost to
the Agency as well. It's just a nice supplement to any
loan that has mortgage insurance coverage.

The other initiative we're involved in was
rolling out a hundred-percent loan program that was
mortgage insured. And we offer this on all CalHFA loan
products. We'll offer to insure all of those. And we
offer additional options now to home borrowers who didn't
have the -- the resources for down payment. And we have
noticed that in the mortgage insurance area, 50 percent
of what we are now insuring are a-hundred-percent loans.
Another initiative that we were involved in was the Interest Only PLUS Program. That too will go to a hundred percent. And it's probably been the most significant, not just for homeownership's production being increased or maintained, but also it's contributed greatly to the mortgage insurance business. In fact, fiscal year to date, 60 percent of what we're insuring is the Interest Only PLUS Program.

While an accomplishment is not the decline in FHA loans, that too has contributed to the increased interest in conventional business and ultimately mortgage insurance. Three years ago 84 percent of our business was FHA. This year, 2005, 27 percent, gravitating towards conventional business.

My slide looks a little bit like the slide that Gerry talked about in his production, but my focus is, of course, the gold bar, which is increasing insurance business over those years. The golden bar reaches up to the 2000 -- 2005/06 year where we're expecting to insure what homeownership is projecting to be a $1.35 billion year. That, in our numbers, equates to we'll probably now insure 760 million in that fiscal year.

The mortgage insurance portfolio looks like this as of a week or so ago. We have a $1.3 billion portfolio of almost 5500 loans. That's up from a year ago, from
930 million. We were in a decline, just like
homeownership's business was dropping with refinances.
We've seen a steady growth, and that's a good indicator
for us.

Additionally, the -- we have of that 1.3-billion
portfolio, 560 million -- just over 560 million is
actually risk in force that is insured, and we reinsurance
that and transfer the risk to a reinsurer for about
420 million of that.

Our portfolio has been experiencing or mirroring
very close to the prime market as far as mortgage loans
go in being less than 1 percent delinquency rate. In
fact, this month we are at .6, so we've very proud of the
delinquency or the work that goes into it and the
mechanism in the market that have certainly kept us low.
We've actually had no claims filed in the last -- for the
last three years' business.

Hundred-percent loans have increased too, now we're
at 52 percent. I mentioned this before. The point was
we've risen from last year at 30 percent of what we're
doing was a hundred percent to now 52 percent of what we
insure is hundred-percent loans. And I'll talk a little
more about condominiums in just a moment.

Because we are now -- because CalHFA is now our
most valued client, almost 99 percent of what we're doing
is CalHFA business, we wanted to take a look at the
profile of the makeup of CalHFA loans. And this chart or
this table shows a comparison between what the 30-year
loan looks like versus the Interest Only PLUS Program
versus the FHA. What is obvious to us is the Interest
Only PLUS is averaging a higher loan to value amount
while serving a lower income group and yet not
sacrificing the credit quality, reflected in the average
FICO score there.

This slide, our condominium slide, we looked at
the trending of condominiums. Obviously as an insurer
we're very interested in the makeup of the types of
properties that we're insuring. This is CalHFA's trend
over the last ten years. In the last five or six years,
it's been a steady incline to where now 52 percent of the
loans that are being purchased are, in fact,
condominiums.

The interesting thing that we noted here was that
the average sales price of a condominium is just over
300,000 as compared to a non-condominium or site detached
dwelling, which is about 200 and -- I'm sorry, 300,000
sales price on condominium versus 270,000 on a detached
dwelling, indicating that condominiums are certainly
servicing the high-cost areas. And we also noticed that
we require a little more income in those as well. We

75
expect condominiums to continue to increase as the most affordable home available in California currently.

We expect to ensure approximately 56 percent of what homeownership will produce this year, and that equates to 840 million of insurance, in loans. We intend to do this by working closely with homeownership to -- in developing within our area ways to handle that increase in business, whether we can use our stop resources, technologies that we're developing right now and processes that we're working on.

Additionally, we intend to be very much involved in the promotion of CalHFA products and particularly those that carry mortgage insurance. And we'll be involved with homeownership in the events, the training events, the seminars, and the conventions and hopefully working also with the lender clients so that they fully understand the CalHFA conventional product and the benefit of our mortgage insurance.

MS. PARKER: Mr. Chairman, I invite any questions on the mortgage insurance side. If there are none, we'll move on.

I'm just noticing the time. I presume that you want be out of here by noon and we do need to do the budget, so I'm going to ask my folks to, you know -- I know there will be questions. Laura, if you and Edwin
will come up. I think we talked a lot about what the
accomplishments have been, so I would ask you if you
could go through to the charts of really what are the --
begin on page 27 with where we are on some of the charts
and go directly to what our business plan is and try to
discipline ourselves to be finished with this segment
with 15 to 20 minutes to do our budget.

MS. WHITTALL-SCHERFEE: We'll jump right to
committed loans. Our expectation, including Lion's Creek
this morning, is that we will have commitments for
$238 million worth of loans through the end of this
fiscal year. This is not what we had hoped to achieve,
but it is what we've been able to achieve in this
particular market. And it's -- this chart, if you look
at it, it seems to say that 2004/2005 was certainly a
banner year, and I would like to point out that it was.
It was the most exceptional year for multifamily
production in terms of loan commitments.

This year was much more in keeping with what
we've seen since the advent of the construction loan
program in the year 2002 and 2003. This year, the
238 million that we will actually achieve is broken out.
It includes the Bay Area Housing Plan, and it includes 17
other projects. We will have committed funds to add an
additional 1,261 units of affordable rental housing in
the State of California.

We're seeing, on average, construction loans of about 13 million. And we're seeing, on average, between 70 to 80 units a project in those committed loans.

In terms of closed loans, the good news is that we make commitments, and we have been working very, very hard to close them. This year we will -- we're estimating $418 million of closed loans. That means approximately 46 projects, 3,750 units. Last year was the single biggest year in our history for loan closings, and we closed 40 projects, and we closed 269 million of loans.

We expect that next year we will probably be more in line with 2004/2005. We're estimating about 39 projects closing for about $260 million worth of loans.

MR. GIPSON: As part of our new strategies as we move forward, we have done in this last -- the current fiscal year, a large number of closings. It is larger than last year, which was a record year. And we continue to move forward and look at the things in the market. And as we spoke about before, we are going to introduce the 30-year fully amortized mortgage product that will be prepayable after year 15, which will allow those who need the fully amortized loan to still have it, but those who need to refinance and rehabilitate somewhere after year
15 or just finance their tax credit equity investor out
of the project will be able to do that now.

In addition, we are going to continue to work
with other state and local housing and social service
agencies. This year, as you know, we did the Bay Area
Housing Plan, very large. In addition we worked with HCD
on the Governor's homeless initiative for which we also
worked with Department of Mental Health. And so together
we're providing supportive housing. And the Agency's
role in that is to provide the construction financing for
those projects.

As part of our ongoing effort, we are updating
the architectural review process. The manual has been
around about 30 years. It's had bits and pieces updated
along the way, but we are thoroughly doing a complete
overhaul of that now, and staff is looking at new
technologies and new ideas and making sure that those are
incorporated into the designs of today as we move
forward.

In addition, one of the last pieces we're
implementing is the implementation of a new database.
The database that we have is currently very old. This
new database will help incorporate our underwriting, our
project management, and other divisions will be able to
tap into it to provide the useful information that we all
need to operate on a daily basis.

MS. WHITTALL-SCHERFEE: In addition, this
database provides an important tool because what it's
doing is it's incorporating our multifamily underwriting
into the database so instead of having to do a lot of
manual data entry, we'll have a lot of uploading
features. It will help ensure that our database is
current, that it's accurate, and that we can pull
information off of it very, very readily.

Terri did ask that I mention a little bit about
the AHP GAP substitute program. Many of you were here at
the last Board and so you heard a little bit about it.
The AHP substitute program, as we're currently
contemplating it, would be a residual receipt loan. We
would be junior to whoever has more residual receipt
money in the deal than we do.

We would make the AHP GAP loan to loans on a
construction basis. The money would go in during
construction. And the expectation is that there will be
a permanent loan of not less than $2 million on any
project where we provided the AHP GAP financing.

Our loan amount would be based on 5,000 a unit to
a maximum loan amount of $500,000. And what we've been
hearing from various nonprofits that we've spoken with is
that this is a very important new program because it will

allow them to have the AHP loan where we couldn't
otherwise qualify it -- qualify for it. And that's why
we think it's an integral part of what we're trying to do
in the next fiscal year to achieve our goals.

MR. GIPSON: This last chart shows our projected
budget for the next five years, if you will. As you see,
$70 million in permanent loans, about 170 in
construction. A somewhat aggressive number, but in
compilation with the AHP GAP substitute and the new
30-year mortgage, we think we can attain that, but it
will be an aggressive goal.

In addition, as we come down there's another
5 million for preservation, 75 million for Bay Area
Housing Plan, and I'll just touch on the
homelessness/special needs program, which is a
$10-million carryover from last year's budget. As we
look forward to working with the Corporation for
Supportive Housing and developing a loan program for
acquisition or development financing for supportive
housing projects, that money has been earmarked for that
project. And so we are working on putting some of the
details with Corporation for Supportive Housing with that
right now.

In addition, there's in our budget, $4 million for
asset management and portfolio assistance for loans
inside the portfolio that may need some additional
rehabilitation or something along the way, so we have
provided for that as well in our current budget.

With that, I'll turn --
CHAIRPERSON COURSON: Questions on multifamily?
Mr. Czuker.
MR. CZUKER: Again, I believe with the right
staffing and the right pay scale that these volumes could
be significantly increased. And as stated slight -- you
know, in the prior on single family, I don't see why we
shouldn't focus on some senior staffing as well as
support staffing to reach out and increase the permanent
loan side of this equation.

And there's no reason it shouldn't be a hundred
to 170 million to 200 million on the permanent loan side
as a target, once appropriate levels of staffing could be
put in place and especially with some of the innovative
financing structures and support that have been
discussed, including the ability to prepay and including
reaching out to municipalities and developers to
reposition housing stock for projects that haven't gone
forward because conventional interest rates are rising.

So I'd like to keep this as a work in progress to
attain and increase the potential for multifamily
affordable housing, which I realize we're confined, given
the current staff issues, and, of course, we'll address
some of that in the budget discussion.

CHAIRPERSON COURSON: All right.

MS. PARKER: Mr. Chairman, thank you.
I brought Margaret Alvarez, our Director of Asset
Management, to come up.

Margaret, if you want to add anything on the last
item there, the housing assistance trust funds for --

MS. ALVAREZ: Yeah, I plan to address that in my
slides.

MS. PARKER: Okay. I just wanted to segue there
for the portfolio assessment.

MS. ALVAREZ: As you'll see on this slide, we now
have 420 permanent properties that we're overseeing, over
33,000 units, and about 1.4 billion in outstanding loans.
Our unit also is the contract administrator for HUD, and
although our portfolio is dwindling through sales and
payoffs, which I'll explain in a minute, we still
continue to generate about a million and a half each year
for that work.

The portfolio, as you know, is long-lasting, 30
to 40 years -- we don't really allow prepayments -- but
it's not static. We only had one loan modification this
past year. Typically we have many more. We also did
four transfers of physical assets, but we have 12 in the
pipeline. So things are always constantly changing there.

On our Section 8 portfolio, we had two payoffs through the OHMAR/OHAP process, and that's with HUD's program that allowed them to finance elsewhere with some long-term affordability restrictions that were actually greater than ours, and so we've been letting those go.

We had two payoffs this year. One property taken by Caltrans for eminent domain, three permanent loans that were closed with Agency sales and refinance as new buyers with the Agency providing the funding, and six more in the pipeline. And we see that in asset management as a really good thing. It really gives the properties a chance to recapitalize and get in a better position for a longer term.

I put up there that we have new hires and that we filled six vacant positions. And I mention that because for our unit this is really very substantial. It's the first time in my ten years at the Agency that I was even able to find one person much less six in one year. It's really allowed us to take a major shift with how we look at our portfolios. Instead of focusing our time just on what happened last month, last year, and where the property is today, we're really able now to use that brain power to focus forward.
With an aging portfolio that needs recapitalization, with Section 8 contracts terminating down the road here, it's very important that we take that shift and be able to look forward, not back. And finding some really good people to work for us has been a boon to us in that area.

I did want to mention on our strategies, we have established in the last couple years, a Section 8 work group to look at our portfolio and see what we can do to recapitalize those properties and keep them going forward. As it turns out, we have 45 30-year loans and 45 40-year loans, and we're really focusing our attention on the 30-year loan product.

And, of course, the Agency would like to find economically practical ways for us to do refinancing, but also meet the owners' goals and objectives. And I'll tell you that the two aren't a hundred-percent matching. So it's been a -- it's been quite a process to go through this work group strategies. But we find that in our 30-year portfolio, about one third of those loans expire between now and 2015, so it is something we have to address and we have to address it pretty soon and aggressively.

About 67 percent of our 30-year loans or approximately 40 of the 45 loans, 67 percent are
financially or physically in fairly poor condition. So they need -- they need something. So we're in the process of finalizing our analysis that we plan to present to senior staff and get some decisions made on maybe what we could do on that portfolio.

But our preliminary assessment really is that the best way to do it is through a sale and the Agency doing the new financing. So as I said, we're very happy to see that that's already happening without our really pushing it.

The properties, just as a reminder to people, are all now 25 years old or older. And the other great mystery in that -- in making that program successful for us and for the owners is HUD, and they're what I call the great unknown because their policies and processes are ever-changing, and there wasn't really an end game plan for what to do with those when the loans terminated, so not only are we trying to figure that out, but HUD's trying to figure it out.

And then lastly, I would -- let's see, I'm sorry. I lost my place here. Our capital improvement loan program for 80/20 properties, that's the 4 million that Ed was showing on the previous slide, the Agency has set aside HAT funds to take the non-Section 8 properties that are also starting to age in the portfolio, where funds
tight, we've been lending, deferred or residual receipt
loans, low interest rate for the sole purpose of doing
some necessary rehab to keep those -- to keep those
going.

On our earned -- HUD earned surplus loan program,
that's where the owners are limited in what they can take
at the end of the day as far as funds from the cash flow,
and so those transfer to us, and we have an earned
surplus loan fund. Some of it really belongs to HUD,
some of it really belongs to the Agency. This past year
we were able to loan almost $6 million. And it actually
wasn't loans. This was all HUD's money, so they actually
gave permission to give that money that the projects
generated over the last 20 years back to the sites to do
capital improvement projects. So we haven't had to loan
anything out of our portion of the HUD funds, so that's
been very successful also.

And then the last thing I would mention is that
one of our initiatives last year was to sell our six REO
properties. We got that ball rolling, and had a fire in
one of the properties that wiped out four of the units,
and that is almost completed in our 25-unit building in
Compton. But the other five, we did offer for sale. We had
55 offers come in, and we're in the very early stages of
the whole thing, so don't really have much to report on.
that because the balls keeps bouncing. But as those get permanent and finalized, I'll come back with a report on those.

MS. PARKER: Thank you, Margaret.

CHAIRPERSON COURSON: Questions on Margaret?

Okay. Special needs.

MS. PARKER: Come up and join us on our special loan programs.

I think this is one that the Board is pretty familiar with, has some of our really innovative programs, HELP and our Habitat. I think Doug can tell you about what's in store for next year.

MR. SMOOT: As you know, we have basically four programs in the special lending unit for major programs. Two are existing. We have a HELP loan program, which is a loan program to local governments. We have a small business loan program which is a revived program, hadn't originated loans for about four or five years and brought to this unit. And we've got a couple loans in process. And we have a new program that we initiated this year which was the Habitat for Humanity loan purchase program. And we have one in development, which is the residential development loan program that I think will be out before the end of the year, before this current fiscal year.

The HELP program really has been in production
for eight years. On Monday we received the second wave
of applications for this year, which would put us in
about the 160 million mark in commitments when those --
when those decisions are made.

The Habitat for Humanity loan program, we've got
3 million in loans that we're looking at right now that
were applied to us earlier. We've made commitments to
the local affiliates, seven affiliates with Habitat sent
in loans, about 44 loans that we think we'll be
purchasing, and we'll be doing that through the summer.

We have two loans with the small business loan
program. We've actually closed one of them and are in
the process of funding that right now, probably within a
couple of days. And we have a second loan that will
close shortly. That program is really a capital funding
to very small developers, and it's an attempt to grow
those developers into, you know, larger scale producers
of affordable housing.

We're working, we have some -- we're ready to do
some internal discussions, final discussions, about the
residential development loan program. That is, as you
know, an acquisition predevelopment loan structure that
really is a loan to locality, loan to local government
entity, for an in-fill single-family for-sale housing
product. Okay. So it really would be similar to our
HELP program, similar in process. And we think we'll be able to put that 10 million out well before the end of this fiscal year.

And moving on to the next slide, you can see that we budgeted in the residential development loan program 10 million before the end of this year. We think we're going to put out two more 10 million funding rounds in the next fiscal year. That would give us -- although not large in individual rounds, that would give us $30 million. We're really testing the water to be able to see what kind of demand we're going to have for that product.

We know that we have another hundred million dollars in a future bonding initiative, if that passes. We have 75 million total to date to work with. Some of that is early reserved at some point in time to go back to be able to feed back into our CHDAP loan program as those funds become short.

The HELP program, we're going to put out two waves of $7-and-a-half million during the year. And Habitat we'll continue with an expectation to be able to do up to $5 million in this next fiscal year to purchases. We'll probably put that out in one final wave.

CHAIRPERSON COURSON: Questions on --
MS. PARKER: This chart shows that special
lending over the five-year plan.

Mr. Chairman, that concludes the presentation of
the business plan. I think at your desk is a -- sort of
a summary page of how it breaks down by programs for the
five-year business plan that is essentially almost
$14 billion. So with this, we would certainly be anxious
to hear about your comments. And we can take this
resolution separately from the resolution on our staff.

CHAIRPERSON COURSON: Is there a motion -- the
resolution that we're considering is on page 185 -- to
approve the business plan?

Mr. Czuker.

MR. CZUKER: So moved.

MR. AUGUSTINE: I'll second.

CHAIRPERSON COURSON: Is there a second?

MR. AUGUSTINE: I'll second.

CHAIRPERSON COURSON: Is there any discussion?

Mr. Morris.

MR. MORRIS: Just kind of overall as it relates
to the business plan and just moving forward, we had
discussions about the audit committee --

CHAIRPERSON COURSON: Yes.

MR. MORRIS: -- that we were going to have. Maybe
you can update us on that.
CHAIRPERSON COURSON: I can. The audit committee --

MR. MORRIS: One other thing too, one of the other issues in this business plan clearly has been the ability the attract qualified senior management and also compensate them properly. One thing you might want to consider -- we don't need to discuss it now given the time, but I think we should have a compensation committee that consists of the Executive Director and a couple Board members so that on a regular annual basis we're reviewing that and come to the Board with that.

CHAIRPERSON COURSON: Let me make two comments. On the audit committee, which was enacted I think at the last Board meeting, has been appointed. Mr. Shine is the Chair. Ms. Galante and Mr. Carey are the other two members. Their first task working with counsel is to put together a charter, if you will, and process and procedures. Counsel, I -- in talking yesterday, I know has put together a draft of that. I think it's ready. He's going submit it to the committee for them to look at, and they'll be back at the July meeting. There will be an agenda item where we'll sort of approve the charter, working function, and outline of that audit committee to move forward. So that process is moving forward.
On the compensation side, I would say that that really is out of our hands, and I'll let counsel or Terri correct me, but our compensation is really set by virtue of state compensation levels. And as a Board, I guess if we could, we would. But one of the issues of attracting other staff is what we can do by virtue of statute, being part of the state government structure. So I don't know what a compensation committee, what latitude, if any, it has, but Terri, you might be able to --

MS. PARKER: Yeah. Mr. Chairman, Members, the salaries for the staff of the California Housing Finance Agency are -- staff really are kind of two groupings. One of them is that they are positions that are gubernatorial-exempt appointments. Those -- the compensation for those positions and other managers is not something that is collectively bargained, but it is set by the Governor's Office and the Department of Personnel Administration. Then those positions in the Agency that are civil service that their salaries are competitively negotiated based on compensation across state service.

So if we have an accountant in CalHFA, that accountant gets paid the same thing that the accountant in the Department of Motor Vehicles or the Department of Parks and Rec. That's the way it is.
That -- and that leads to the problem that we have had with compensation is because it is set by the Governor's Office and the Department of Personnel Administration, we haven't been able to have it done -- set on a -- any kind of a competitive basis. We have done some salary surveys recently, and the discussions that we've had on compensation, we have information which demonstrates how disproportionate our salaries are even to other housing finance agencies across the country, not just to what would be an appropriate labor pool in California that would include other governmental housing entities.

So it is a -- salary compensation is an issue in state government in totality. But the difference in CalHFA is for us is that it's -- unlike maybe our other sister state agencies, they may not be able to do things in as timely a fashion or perhaps as well as they would like to. In our case, we either do the business or we don't do the business. And that is the problem with the need for qualified staff.

So we're having that discussion. It is either -- some of it can be solved through changes, definitely changes in statute. And in fact, I would point out it's kind of interesting when the Agency was first created in statute, if you look at our statute it says that the
Board will set compensation. However, that has never really been put into practice because before that occurred, the discussions within the executive branch is that -- that the Department of Personnel Administration would set those salaries.

So if there was more flexibility, I don't think we would have gotten to the place that we are at now.

CHAIRPERSON COURSON: I think we have to -- unfortunately, we're in a position on both of those --
categories --
MR. MORRIS: No, I'm talking about -- see, I'm not talking administrative, I'm talking about the senior -- senior executive.

CHAIRPERSON COURSON: And those are the ones --
MR. MORRIS: And there is a range in those because at least in the Board material I got --
MS. PARKER: They're --
MR. MORRIS: -- there was a range.
MS. PARKER: All the salaries are at the top step of those ranges.

But, Mr. Morris, just for an example, we hired a recruiting firm four or five months ago to recruit for the Director of Multifamily. The salary, the top salary we have to offer for that position is $180,000. The recruiter came back and basically said there is no one
that they can recruit for that salary with the
qualifications that we need and, in fact, pretty much
told us that the salary range that we would need would
probably be in 150- to $165,000 range.

This is something we started to talk about last
time, and I think Ms. Galante also reiterated that was
what she was aware of from recruiting efforts that she's
done for similar kinds of positions. So until we have
salaries like that, it's -- you know, we can't attract
someone who meets those qualifications.

CHAIRPERSON COURSON: So along those ranges,
we're at the max, and we're really at the -- now at
playing the hand that's dealt us through the Department
of Personnel for those senior folks. And what we're
doing now, Terri's talked about and the reason you've
seen some of the changes in the plan, we have, based on
those discussions, hope we can bring to the Board the
fact that we are going to be able attract and be
competitive in those we're hiring. That's what leads us
to be optimistic.

MS. PARKER: I think one of the things that makes
it so difficult in the sense I think there's sort of two
bites at the apple. One is the salaries aren't really
competitive relative to their -- to counterparts, but the
fact that there has been in some cases little or no
salary increases over a four-to-six-year period, that
those salaries have fallen even more significantly
behind. And I think the salary survey that we looked at,
I think we tried to look at some comparable positions,
perhaps PERS and STERS, that are somewhat along the same
lines of financial institutions were probably 20 to 30
percent below where those salaries are.

CHAIRPERSON COURSON: And in my comments when I
talked about Terri being dogged, this is the area where
we really have spent a substantial amount of time and
have some, I guess, guarded thoughts that we will be able
to get those salary levels to where we can attract and
recruit the folks we need.

Unfortunately, the decision to do that is out of
our hands, just based on the structure. But clearly it
will be back on the -- we'll talk about it again in July
because as we move forward now we do have some momentum
moving in that direction in July and a lot of the plans
you see are --

MR. MORRIS: That's fine. I still think there
should be a committee. I mean, you know, I understand
what you're saying, but I still think that there should
be a committee that's, on an annual basis, reviewing this
and making more of a case to get the salary we need to be
competitive. So that's -- you know, that's your --
that's your feeling, and my feeling is very strong there
should be a compensation committee.

MR. CZUKER: Mr. Chairman.

CHAIRPERSON COURSON: Mr. Czuker.

MR. CZUKER: Isn't there a disconnect also in the
sense that CalHFA is a self-funding entity and it's not
imposing on the state budget or utilizing resources or
taxpayer money from the state budget, and therefore based
on the self-funding nature, shouldn't there be a little
bit more autonomy in terms of salary? And to the extent
that the original charter legislation provided for the
Board to set the salary limits, shouldn't that perhaps be
tested and to the extent that we're willing to take some
heat, perhaps be a little more aggressive in saying our
charter was founded on the premise that we would be
self-funding and not hitting the state budget; we are not
hitting the state budget, and therefore we need to be
competitive with industry standards and need to have
autonomy in salary limits to achieve our goals and public
purpose?

MR. SHINE: Yes.

MS. RILEY: I have to say we have used that
argument many times in the past, and unfortunately, folks
at the Department of Personnel administration are
administering salaries across the board, across state
government, and they have said very clearly that while
they recognize the difference, that they cannot single
out our agency and make exceptions. Because if you look
at a general fund department and a special fund or
someone who's kind of off line generating their own
revenue, everybody in state government would then want to
rush to come to work for us because we aren't subject to
those variances of general fund dollars, and they don't
want to treat employees differently regardless of funding
source.

CHAIRPERSON COURSON: Let me --

MR. CZUKER: With all due respect, if you take it
out of their domain, they have no authority and no
standing to say anything, and maybe it's a legal question
that takes it out of their jurisdiction completely. And
maybe we should ask the lawyer to give us some direction
here.

MS. PARKER: Mr. Chairman, let me just say, you
know, this is a very, very frustrating issue for us.
And, you know, I just -- I've written you in my letter I
cannot say enough good things about the staff that are in
this room and the job that they have done. And the
compensation, you know, I tease my folks because the
Executive Director, my colleague, in the state of Wyoming
makes 155,000. As the Executive Director here, I make
127,000, and many of my colleagues make twice that. It's a very -- it borders on being demoralizing to some extent because the Agency prides ourselves on really wanting to do a good job.

It is the reason why we have tried all of the good, meritorious arguments for quite some time that Mr. Czuker is talking about. And we haven't been successful with them. That was the reason why, frankly, I proposed this strategy of bringing to the Governor an initiative on homelessness that's announced tomorrow with the quid pro quo that if the administration wanted to take this initiative, it could only be accomplished if there were the appropriate qualified salaried individuals to do it.

We have gone through six months' discussion about that with people asking us every other way imaginable to figure out how to do this without dealing with the salaries and finally they have come down to recognize that it cannot be done, that the laws that govern positions do not give me -- although I can hire anybody on a contract, I cannot displace a gubernatorial appointment with a contract. And that is the reason why finally there are discussions going on this. I hope in the next 30 to 60 days to have more information on this.

But believe me, I think we have tried every
conceivable constructive positive way to go about this, and if I thought that bringing a lawsuit would be helpful in the long run, I would be making that suggestion. And I think actually I've mentioned that to our Chair.

But I would like to just ask for your patience and give me a little bit more time. I would not have made the changes to this business plan that I did if I did not think that we were going to be successful in being able to finally make a change to this, and if you'll give me a little bit more time to come back and report to you on it.

But I have not given up on this, and I feel so strong, personally, because it is the success of the Agency in the future. If we don't deal with this now, we won't have the people to do the business. And once we get out of the marketplace, it will be very, very difficult to get back into it.

CHAIRPERSON COURSON: Let me -- let me close the loop. I think Terri's right on that. We have worked -- she certainly has worked, and there is some optimism that there are some -- there's going to be the capability of filling these positions we're talking about at competitive salaries. Having said that, however -- and I think we'll explore that and have a lot of more definition when we get to July.
But to respond to Mr. Morris, if, in fact, you
think strongly enough, as you do, that there should be a
compensation committee, I think the Board would be happy
to consider that. I would ask if you would maybe put
together some bullet points what the -- based on what we
know, sort of the role or function, if you would, the
job, as we did for the audit, share that and we'll get it
in for discussion as to what the role of that committee
would be.

And at the same time, even though we are moving
forward, I think it would be of interest to revisit at
least what is in statute versus what is in practice and
see where the differences are and what statute says so
the Board at least knows what the statute says are our
authorities are versus what the current practice is and
then -- and then have that to revisit. At least we have
a base therefore to make some decisions about what
actions this Board wants to take, so moving forward with
the process we've got going but also looking going
forward beyond what we're doing on a more short-term
basis.

MS. PARKER: I would say one other thing that I
presume is obvious to all of you, it goes without saying, but
each of you individually to the extent that you wish to
take this issue on and if there is a public forum for
this issue to be taken on, I would, you know -- I could
give you, staff would be happy to supply you with any
information that you would like that clearly has been
done as work in this arena.

CHAIRPERSON COURSON: Well, I think where we're
headed is to take a look at what are the avenues available
to us as a Board to take these issues on, statute versus
practice. And if you do, then obviously it does dovetail
back in then to -- to the Board itself having a
compensation structure. So I think we should move
forward along those effect, but also keep -- we've got
the trains on the track. Let's not derail those, but
also be prepared and in July have some of this
information to look at.

Mr. Augustine.

MR. AUGUSTINE: Yes, thank you.

I wanted first off to echo your comments about
Terri being the tireless advocate of this. Let me --
rest assured to all of you that she certainly is. Also,
my immediate boss, Secretary McPeak, is also the person
who's been -- within the administration who has been
pushing this issue. While it affects this Agency as
we've talked about, it affects other departments within
our agency including Caltrans, which has its engineers
regularly hired into both the private sector, but more
significantly into the public sector at much higher
salaries.

So it is an issue that we are addressing at the
administration. It's significant everywhere. It's
probably more significant here and in Caltrans and many
other agencies, but it is there. Secretary McPeak has
formed a working group within our agency to solicit --
which Terri is a member of that committee as well as
other department directors, making recommendations to the
administration. As you can see from the discussions
we've had, that we -- the administration is sensitive to
this issue. It -- addressing this.

While you certainly have the opportunity to avail
yourself of all your options, I would -- I would think
that as you're reviewing that, that the discussions of
the lawsuit at the point in time that we're finally
seeing an opening, you certainly can review that but I
would strongly offer that you need to think about that at
the exact moment that you're finally seeing a
breakthrough. To take a fairly dramatic action like that
may not be the most prudent, but you certainly have every
right and opportunity to consider that.

CHAIRPERSON COURSON: I just think the Board -- I
sense the Board wants to take a look at what the statute
says versus practice and what our options are in going
forward.

MR. AUGUSTINE: And I concur, you have every
right and opportunity to do that. I didn't say --

CHAIRPERSON COURSON: What we do from that is --

MR. AUGUSTINE: And that's my point is the next
step is -- I think you would have -- you need to have
some deep thought about that in considering this at the
exact moment that we're making some breakthrough on the
issue you've been pushing for several months.

CHAIRPERSON COURSON: Mr. Morris.

MR. MORRIS: We'll address it at the next Board
meeting. I think that's the way to do it.

CHAIRPERSON COURSON: Right. It will be on the
agenda.

MR. MORRIS: And I think there is a unique
opportunity here now, especially in an election year.
I've talked to two of the three individuals running for
governor about CalHFA, and both of them said, "Get back
to me if you have any ideas of what we can do to improve
things." So we'll reach it.

CHAIRPERSON COURSON: Great. As I recall, there
is a motion and a second to approve the resolution on
page -- Resolution 6-13.

MS. PARKER: I'll just tell you to the extent of
what's in here, what's not in here, to the extent that we
are successful in the salaries and whatnot, those --
there are no changes in salaries. And to some extent we
didn't go back through here, given we changed the
business plan. Perhaps to -- we'll have to go back and
look at areas of, particularly homeownership, and see if
there are staff resources. But for now, you know, it's a
very modest budget in that sense. We've --

CHAIRPERSON COURSON: We're still on the plan
portion of it.

MS. PARKER: The business plan we didn't adopt?

CHAIRPERSON COURSON: No.

MS. PARKER: Sorry.

CHAIRPERSON CZUCKER: I'm trying.

MR. CZUCKER: So moved.

CHAIRPERSON COURSON: We've got a motion. We've
got a second.

MR. AUGUSTINE: Second.

CHAIRPERSON COURSON: Is there any
discussion on Resolution 6-13?

Is there any comment or discussion from the
public?

(No audible response.)

CHAIRPERSON COURSON: Would you please call the
roll.

MS. OJIMA: Thank you, Mr. Chairman.
Mr. Pavao.

MR. PAVAIO: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Mr. Augustine.

MR. AUGUSTINE: Yes.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

MS. OJIMA: Resolution 06-13 has been approved.

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Item 7. Discussion, recommendation and possible action relative to adoption of resolution approving fiscal year 2006/2007 CalHFA Operating Budget

CHAIRPERSON COURSON: The next in our book is the before alluded to budget.

And so, Terri, I will now turn it over to you.

MS. PARKER: I think I'll take my foot out of my
mouth and let Jackie make the presentation.

MS. RILEY: As Terri alluded to, this is the status quo business plan budget, and there was really no time to think about redoing it as of yesterday afternoon. It focuses mainly on infrastructure, moving positions around internally. We redirected some positions to focus on our infrastructure, primarily in Financing, Admin and IT.

There are minimal, very, very minimal, salary increases that are included for our attorneys that right now, that contract is making its way through the Legislature and calls for about an 11-percent overall increase. We know that attorneys' salaries are at least lacking by 30 percent in the Sacramento labor market, but I guess it's a first step. And also some of the inspectors we have, there were some salary increases there, but they're very, very minimal.

The other thing that is of interest in this budget is that our pro rata continues to go up and it probably will because, being funded out of pro rata is what we pay to other state governments to handle personnel, payroll, all of those kinds of things that happen for us. The other thing that's funded out of there that's really significant is retiree health benefits. And our work force at CalHFA, as everywhere, has seen the first wave
of significant retirements this year, and they will
continue, so that number is going to be going up for a
while.

The biggest change in the budget as it is is the
contract line item I passed out for all of you.

CHAIRPERSON COURSON: That's at your place.

MS. RILEY: Right. Everybody has this contract
sheet. It shows what went in to make up that contract
line item, and there's a lot in there for the IT
initiatives. They're all over. You know, we're working
on IT initiatives in Financing, in Fiscal Services, in
Multifamily, in Homeownership. So there's a lot on the
plate this next year with IT, so there's a large increase
in the IT contractual services.

And also Tom with his legal has actually
decreased a little bit from last year, but Tom does have
some contingency money in there, because we never know
exactly what's going to happen. So we sort of plan for
everything that we think could happen. We do
analyze our expenditures monthly. We do some trending to
look at where we're going to be and analyze that pretty
closely each month. And right now I will just tell you
that at the end of March going forward, it looks like
we probably will be under-expended this year by about at
least $2 to 2.5 million.
CHAIRPERSON CURSON: And is it fair to say that if, in fact, depending on what happens, this staffing and recruiting and filling these key positions, that we'll then see a revised budget?

MS. RILEY: Yeah. Keeping track of that, probably we always do a midyear update.

CHAIRPERSON CURSON: But this budget is based upon what we know today.

MS. RILEY: Yes.

CHAIRPERSON CURSON: But as we make -- if in July when we get to that point and we see we're getting there, we'll see --

MS. RILEY: We will be back for an augmentation if we need it.

CHAIRPERSON CURSON: Correct.

Is there a motion to approve the budget that is on your -- in your book? It's page No. 199, and it's Resolution 6-14.

MR. CZUKER: So moved.

CHAIRPERSON CURSON: Is there a second?

MR. SHINE: Second.

CHAIRPERSON CURSON: Mr. Shine seconds.

Is there any discussion?

Any discussion or comment from the public?

(No audible response.)
CHAIRPERSON COURSON: We'll call the roll.

MS. OJIMA: Thank you.

Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker.

MR. CZUKER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Mr. Augustine.

MR. AUGUSTINE: Yes.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

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

MS. PARKER: Thank you all very much.

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Item 8. Reports

Item 9. Discussion of other Board matters

CHAIRPERSON COURSON: This is the time where we
ask -- I have no notice of any public testimony or
comments. Is there any -- are there any comments or
testimony from the public?

Seeing none, our next meeting is in July. We do
have the follow-up items that we will talk about in terms
of personnel, and we will work with staff to do that.
And I would anticipate there will be a budget item from
Mr. Shine once he and his audit committee get a chance to
look at their charter, and so over the next couple of
months and we'll finalize that also at the July meeting,
so those two things for sure, and then we'll have some
projects, I'm sure.

Seeing nothing else, we stand adjourned. Thank
you all.

(The meeting concluded at 11:59 a.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 18th day of May, 2006.

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