Thursday, September 7, 2006

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

10:00 a.m.

1. Roll Call.

2. Approval of the minutes of the July 6, 2006 Board of Directors meeting.

3. Chairman/Executive Director comments.

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

5. Status report of the Mortgage Insurance Program. (Chuck McManus)

6. Status of REO Sales. (Margaret Alvarez)

7. Report from the Audit Committee Chairman regarding the first meeting of CalHFA’s Board of Directors’ Audit Committee. (Jack Shine)

8. Discussion, recommendation and possible action relative to the organizational documents and procedures of CalHFA’s Board of Directors’ Compensation Committee. (Terri Parker)

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10. Discussion of other Board matters.

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

**NOTES**

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

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be November 9, 2006, at the Hilton Burbank Airport & Convention Center, Burbank, California.
STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

--o0o--

Hyatt Regency
1209 L Street
Sacramento, California

Minutes approved by the Board of Directors at its meeting held at:
09/07/2006

Thursday, July 6, 2006
9:32 a.m. to 11:37 a.m.

Attest: ____________________________

--00o--

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

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ORIGINAL
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

---o0o---

BOARD OF DIRECTORS
PUBLIC MEETING

---o0o---

Hyatt Regency
1209 L Street
Sacramento, California

Thursday, July 6, 2006
9:32 a.m. to 11:37 a.m.

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**APPEARANCES**

**Directors Present:**

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

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

PETER N. CAREY  
President/CEO  
Self-Help Enterprises

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

CAROL J. GALANTE  
President  
Bridge Housing

THERESA A. PARKER  
Executive Director  
CalHFA

JACK SHINE  
Chairman  
American Beauty Development Co.

TERRY ROBERTS  
for Sean Walsh  
Governor's Office of Planning and Research  
State of California

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

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A P P E A R A N C E S, (continued)

CalHFA Staff Present:

BRUCE D. GILBERTSON
Director of Financing
Fiscal Services

EDWIN C. GIPSON, II
Chief Multifamily Lending

THOMAS C. HUGHES
General Counsel

DENNIS MEIDINGER
Comptroller

JOJO OJIMA
Office of the General Counsel

KATHY WEREMIUK
Multifamily Loan Officer

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Speakers from the Public:

DARRELL STEINBERG
Chair
Mental Health Services Oversight and Accountability Commission

DR. STEVEN MAYBERG
Director
California Department of Mental Health

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BE IT REMEMBERED that on Thursday, July 6, 2006, commencing at the hour of 9:32 a.m., at the Hyatt Regency, Regency Ballroom E/F, 1209 L Street, Sacramento, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

--00--

Item 1. Roll Call

CHAIRPERSON COURSON: I will call the Board meeting to order, and we will call the roll.

MS. OJIMA: Thank you.

Mr. Pavao for Mr. Angelides.

MR. PAVAO: Here.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes, here.

MS. OJIMA: Mr. Czuker.

(No audible response.)

MS. OJIMA: Ms. Galante.

MS. GALANTE: Here.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Here.

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

MR. AUGUSTINE: Here.

MS. OJIMA: Thank you.

Mr. Morris.

(No audible response.)
MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Walsh -- oh, I'm sorry.

Ms. Roberts for Mr. Walsh.

MS. ROBERTS: Here.

MS. OJIMA: Thank you.

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.

CHAIRPERSON COURSON: Okay. We do have a quorum.

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

CHAIRPERSON COURSON: And our first -- our first order of business is to approve two sets of minutes. If you'll recall at our last meeting, the minutes from -- of March 9th had some incorrect identifications and some typos, so we withheld those from approving them. They are in your board book, and a motion is in order to approve the minutes of the March 9th meeting.
MS. GALANTE: I'll move.
CHAIRPERSON COURSON: Moved by Ms. Galante.
Second?
MR. PAVAO: Second.
CHAIRPERSON COURSON: Okay. Mr. Pavao second.
Any discussion?
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: Ms. Galante.
MS. GALANTE: Yes.
MS. OJIMA: Ms. Jacobs.
MS. JACOBS: Abstain.
MS. OJIMA: Thank you.
MS. JACOBS: I wasn't here.
MS. OJIMA: Mr. Augustine.
MR. AUGUSTINE: Abstain.
MS. OJIMA: Thank you.
Mr. Shine.
MR. SHINE: Aye.
MS. OJIMA: Mr. Courson.
CHAIRPERSON COURSON: Yes, aye.
MS. OJIMA: It did not pass.

CHAIRPERSON COURSON: Okay. We will have to --

MR. AUGUSTINE: Then let's do the roll again.

I'll change my abstain to aye then.

MS. OJIMA: Thank you, Mr. Augustine.

The minutes have been approved.

CHAIRPERSON COURSON: Thank you. Thank you, Mr. Augustine.

And the second set of minutes are those of our last meeting from May the 11th. If you've had a chance to review those, a motion would be in order to approve the minutes from the --

MR. CAREY: Move approval.

MR. AUGUSTINE: Second.

CHAIRPERSON COURSON: Mr. Carey moves and Mr. Augustine seconds.

Any discussion?

Call the roll. Oh, wait a minute, I'm sorry.

MR. SHINE: Well, a minor little detail we forgot on page 222, just a little typo. You got Czuker down as chairperson on line 13. I believe that's you.

CHAIRPERSON COURSON: On page 222, line 13.

MR. SHINE: That should be you.

MS. PARKER: Strike out Czuker and just leave it as chairperson.
MR. SHINE: That's good.

CHAIRPERSON COURSON: Okay. We will strike Czuker and just leave Chairperson.

Any other changes?

We do have a motion and a second, and I trust that the mover of the motion and the second are moving as amended.

MR. CAREY: Yes.

CHAIRPERSON COURSON: Okay. Call the roll.

MS. OJIMA: Thank you.

Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Mr. Augustine.

MR. AUGUSTINE: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

MS. OJIMA: The minutes for the May 11th board
meeting have been approved.

    CHAIRPERSON COURSON: Thank you.

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Item 3. Chairperson/Executive Director comments

    CHAIRPERSON COURSON: I'll just make a couple of very brief comments this morning, and I think I alluded to this at our last meeting as an update. As many of you know, for a number of years one of the major programs of our single family initiatives have been the FHA loans. And FHA clearly has seen a drastic reduction in their participation and share of the market over the last few years, very dramatic. And there's been a very intense initiative by the administration and the Congress to revitalize FHA. And what had been sort of languishing now all of a sudden is moving at what in Washington could be considered warp speed in revitalizing FHA.

    They're going to be doing -- increasing the loan limits pretty dramatically. That certainly will affect us here in California. They are going to be doing a risk-based pricing of their mortgage insurance premiums so they'll base the premium upon the credit quality of the buyer. They are going to be -- part of the initiative is to make hundred-percent loans as opposed to some of the nonprofit down payment
assistance. And there's just a number of things that they're doing administratively.

So as we move forward in our own lending, I think we'll probably -- my guess is if, in fact, that legislation does move through in this session of Congress, that it will -- could dramatically affect the product mix and the insurance that we have on loans through the FHA. That will be something that we should watch with interest, and certainly the industry is.

The second thing I mention, and this is not new news, but I'll certainly -- I think most of you are aware that Secretary McPeak, Sunni Wright McPeak, has announced her resignation as of November 20th, so she's not leaving immediately, but will be with us till September the 20th. She's accepted a new position in the Bay Area, and we always wish the Secretary well. It's been enjoyable working with her, and I'm sure we'll have an opportunity, hopefully, to recognize her here before she leaves on the 20th of November.

Having said that, I will turn to our executive director, Terry Parker.

MS. PARKER: Thank you, Mr. Chairman.

Thank you, Members, for your attending the Board. With a mere seven individuals, we are always concerned about having a quorum.
Just a couple of sort of newsy notes, I wanted to report to all of you that we finished our year-end production with records in the homeownership area. We did $1.409 billion worth of first-time homebuyer homeownership loans. It's a new record for the Agency. And as part of it, it's also a new record for our mortgage insurance fund that's right now insuring approximately half of our first-time homebuyer loans. So we're very proud of the staff and their accomplishments in those areas.

I have no news or updates to you on hires for our vacancies in the homeownership and the mortgage insurance, but we will chat a little bit about that issue when we speak about compensation commission.

We do also want to introduce to you the new member of the Hawkins team that's representing Hawkins today, Russ Miller out of their San Francisco office. He and Stan Dirks are both here to represent us as our bond counsels.

And last, just a note of information is the Governor's -- the Governor had a policy academy a couple weeks ago in Pacific Grove to have the State work on developing a plan to reduce chronic homelessness. I participated, along with colleagues from HCD and the Governor's Office of Planning and
Research. And I think we're well on our way to
submitting to the Interagency Council a plan for
California so that we will be one of the now 49 states
to have a plan instead of the two states in the nation
to not have a plan.

And with that, Mr. Chairman, that concludes my
remarks.

CHAIRPERSON COURSON: Okay. Thank you, Terry.

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Item 4. Presentation to the Board on the Proposition
63/Homeless Phase II Initiative

CHAIRPERSON COURSON: Talking about
homelessness, we, as you know, have spent a good deal
of time in our board meetings with Terry giving us
updates on our role in the initiative for dealing with
homelessness. And we have two individuals with us
today that join us to talk about Prop 63 and the
homelessness and the Phase II Initiative: Dr. Steven
Mayberg and -- Dr. Mayberg is the director of the
California Department of Mental Health -- and Darrell
Steinberg, who many of us know. And Darrell is the
chair of the Mental Health Services Oversight and
Accountability Commission. There's got to be an
acronym in there somewhere I'm missing. But also
really Darrell's the -- we'll call him the father of
Prop 63 and also is a candidate for the state Senate.
And I think if you fellows would join us,
Darrell and Dr. Mayberg.

MR. STEINBERG: Do we take the oath?
(Laughter.)
CHAIRPERSON COURSON: No one else has, so
there's no reason.

MS. PARKER: I'm going to come join my partners
in crime here.

MR. STEINBERG: Absolutely.

MS. PARKER: It's really my pleasure to have
both of these fine gentlemen join us today and talk a
little bit about the Governor's initiative on chronic
homelessness, which we really refer to as Phase II.
You all remember that a little over a year ago the
Governor proposed Chronic Homelessness Initiative Phase
I as part of his last year's budget to use some
remaining Prop 46 funds along with some Prop 63 funds
to launch about a $50-million initiative to begin to
develop housing for chronic homelessness.

At that point in time, there was really sort of
another part of this initiative to be that was being
discussed by Darrell Steinberg. And we thought that
this would really be a great synergism to complement
what we had started, but really to launch it. And so
we started having discussions a year ago about
Darrell's concept and to be able to really fulfill what
I think we would all sort of refer to as our vision and
our dream.

So I've asked both of these key people to come
and talk with you a little bit about what this
initiative is, the complexity of it, the challenge
before all of us, and actually what we really hope to
be -- accomplish, which will be, we think from our
standpoint, precedent setting in the country on the
issue of chronic homelessness.

So with that.

MR. STEINBERG: Thank you. Thank you very
much, Terry. Thank you for your outstanding work over
the past months to help bring us to where we are today.

Dr. Mayberg, the same thing.

This has been really an incredible effort that
I wasn't sure would actually happen, but it has. And I
want to thank the Board as well for your confidence in
being willing to step out and to do something different
and different in a way that we know is going to help
thousands and thousands of people who frankly have been
given up on in California.
A little brief history here: We passed Prop 63 in 2004. The Mental Health Services Act provides about $700 million and growing -- this year it's about $1.1 billion a year -- for mental health services. The Act, of course, is in response to what most consider to be 40 years of an issue which, despite a lot of great leaders and a lot of great programs, is a forgotten issue. When we shut the state mental hospitals 40 years ago, the deinstitutionalization, there was a promise made of a well-funded community mental health system that never happened.

When I got into the legislature in 1999, I introduced AB 34 and AB 2034 which, thanks again to the help of the prior governor and Dr. Mayberg's excellent implementation, we were able to put $55 million on the street to provide outreach and comprehensive services to the homeless and mentally ill. The money was used for whatever it took, and we demonstrated outstanding outcomes for people in terms of reduced hospitalization, jail time, days of homelessness, increased employment.

Well, we passed Prop 63 in 2004, which was AB 2034 on steroids, as we like to say, being able to take what we had done over the five years and actually deliver those kinds of services to most all in need.
We recognized that housing is the literal foundation for helping people live with mental illness. Services without housing are ineffective. Housing without services for people living with chronic mental illness are ineffective. We have to combine the two.

And in the months after the passage of the Act, the light sort of went on for me in which I said to myself this is not one-time funding here. This funding stream will repeat itself every year and, in fact, according to the projections of the Franchise Tax Board, will grow. And so we have the ability to capitalize on this fund to address some of the priority capital needs of the population we are trying to serve.

The Act itself requires that 10 percent of the first three years of funding be spent on capital, but that is a floor, not a ceiling. And so I suggested that we set aside 20 years' worth of funding, 20 years' worth of 10 percent, and capitalize on those dollars to build as much supportive housing as we can, combined with much of the remainder of the 90 percent of the Proposition 63 money to provide the services for people who will be housed.

To make a long story short, in working with the experts here, your department and Terry and with the
Department of Mental Health and with a number of other stakeholders and nonprofit housing community, the Corporation for Supportive Housing, Lehmann Brothers provided a lot of pro bono technical assistance, we began modeling what we could do with 20 years' worth of $75 million a year, which is approximately 10 percent of the first year's Proposition 63 funding.

And we talked a lot about a bond versus a pay-as-you-go approach. And the bond itself, at least at this point, is problematic because -- because we didn't think about this issue when we drafted the initiative. We didn't specifically provide bonding authority in the initiative, and there's some legal ambiguity about whether we could do it or not.

What we settled on -- not just settled on, but we're very excited about -- is the Governor's executive order, which, of course, sets aside $75 million a year, for 20 years, out of the Prop 63 fund to build supportive housing for people living with mental illness. You have told us -- your experts and the experts throughout the field have told us, that by putting those table stakes out there that we can leverage those dollars about three to one, which means that the 1.5 billion investment that we will make out of Proposition 63 can be leveraged to create four and a
half billion dollars' worth of actual investment to
build at least 10,000 supportive housing units over the
next 20 years.

And again, with all the appropriate creative
financing that we will be leaning on your expertise to
help us figure out, we want to build more of that
housing sooner rather than later.

This initiative, small-I initiative, is
consistent with the intent of those of us who pushed
for Proposition 63 in the first place. We not only
want to help thousands of people, but we want to
demonstrate to the society that by helping people
living with mental illness, we can make a difference in
the quality of community life as well. We don't have
to tolerate unending homelessness as an acceptable
social condition in our society. People do not have to
be forgotten.

And we are all about -- between the Department
of Mental Health and the Oversight and Accountability
Commission and all of the stakeholders involved in the
implementation of this Act, we are about big impacts.
This is the first. This is the first of our big,
small-I initiatives within Prop 63 to demonstrate that
we can make a visible difference to the people of
California.
And I'm grateful and excited that we have now taken the first step to launch what I know will -- will make a great difference here in our state.

Thank you.

DR. MAYBERG: It's always great to work with someone who's a visionary and who has grand schemes, and Darrell has grand schemes. There's a downside to that because with every grand scheme, there's -- the devil's in the details. And that has been really important for us, to do it right. We want to make sure that this works.

Terry and I have spent a lot of time modeling this to see what are the issues we need to address, how do we deal with this, and how do we move this forward. So I think I'll talk a little bit about how we've conceptualized this and where we're going to go.

I mean the idea of working together and having a partnership between the Housing Finance Authority and Mental Health goes back a number of years actually and started working together with the Supportive Housing Initiative and seeing how important linking both housing and services were, not just for persons with mental illness, but for persons with any disability.

And then it evolved to its next iteration through Prop 46 where there were some set-aside moneys
and seeing -- and then added to the mix then was Housing and Community Development, seeing that as state entities working together we do a much better job. And I think one of the things that Prop 63 really envisions is breaking down some of the silos and barriers. And when we talk about integrating services, we really need to integrate how we work together among different departments and different agencies in state government, and that's something that the Governor has really caught onto, and I think when you read the executive orders, it talks about us working together to make this happen.

So with that history of working together, it made it easier -- and having a long history of trust and respect. Terry and I go way back, when she was a teenager actually, a few years back.

MR. STEINBERG: I'd like to hear that story.

DR. MAYBERG: That was about ten years ago.

And knowing that services could make a difference through AB 34 and 2034, we began looking at what was the way to get housing done. Almost all of the research seems to indicate that success for people comes with housing first, that you don't have to get them stabilized and get everything in order before you put them in a house. Keeping the house, getting them
with a roof over their head, something that they take
pride in, really motivates them to excel both in terms
of treatment, getting jobs, and getting involved in the
community.

So it was always in the back of our mind that
we would do something, and then when the counties
started developing their plans for what their needs
were, with all the community inputs, almost every
county listed housing as a really high priority and
that any one-time money they had, they wanted to spend
either on rent subsidies or housing starts.

And the one thing we realized in the mental
health community is we have zero expertise in the
housing world. We're great when it comes to the
service world, but even understanding the language or
the financing or all of the hurdles that housing folks
have to go through was beyond our ability. And we
didn't know how to broker relationships with developers
and with even the folks doing the ten-year chronic
homeless plans with a lot of the zoning issues that --
because county mental health report is used to dealing
with counties, not used to dealing with cities. So we
figured we had to develop some sort of strategy to
break through that.

So as Darrell said, we came up with this
concept of putting $75 million a year in a pot to
continue to grow to serve as the buy-down to make
housing affordable and then look to see what kind of
other financing could we link with that, leverage with
that, ranging from conventional financing to special
needs financing, tax credit, whatever it took to get to
the point where we could stimulate development. And
then, certainly in the development world, we realized
that the Department of Mental Health doesn't have a
huge credibility. We aren't seen as one of the prime
developers of affordable housing.

But the Housing Finance Authority does, and
that was what was really critical to us, to have more
credibility and the ability to talk to lenders and
developers to be able to get into this. And so it
begins not only bringing new people to the table, but
brings to us a way of reducing the State buy-in.

And I think when people always say, "Well, why
would anyone build anything for someone who's mentally
ill? Will they be good tenants? What's going to
happen to the property," realizing that we're going to
take responsibility for all the services and support,
we're great tenants. You're guaranteeing rent. You're
guaranteeing someone who's going to be available 24/7
if a problem comes up to resolve that. So by linking
the services with the housing, it reduced any kind of
anxiety and made it really a high priority.

Where we are now is stuck with issue of how do
we get that money out? How do you develop these
proposals? And counties have to do it. And the
requirement we have is that counties have to not only
develop the -- with whoever the housing plan, they have
to guarantee that the supports are going to go with it.

So we have to develop the mechanism to do that,
but even more importantly, we have to figure out what's
an equitable way to distribute the money. You just
can't give each county a certain amount, because some
counties aren't ready or don't want necessarily to do
this. Other counties, I guess to be blunt, are
voracious about any money that's on the table, that
they'd be more than willing to take anything that's out
there, plus.

So to at least make this money available to
every county in the state, every part of the state,
because affordable housing and homelessness is an issue
everywhere in the state, not just in our urban areas.
And to be able to then link that with the financing
schemes, and that's a little bit tricky.

And so in the next month or so, we're going to
start meeting with -- Terry and I and our
representatives are going to start meeting with the counties, county mental health, bring in some technical experts, maybe bring in the Treasurer, because they have some -- some of the decisions to be made about how some of these tax credits stuff go out, and then also some of our housing folks, too, can talk about the technical necessity, what they need, so we can begin developing sort of the RFPs or the RFAs that counties can get doing this.

And as Darrell said, we'd like to do it in a way that cuts through a lot of the red tape. And one of the things we've learned from our Homeless Initiative I is that it's a little cumbersome right now to have people apply. And if we can streamline the application process and get the money out and still have the accountability and the guarantees, that's probably going to be better for us. And so that's where we stand on this.

And that -- I think both Darrell and Terry minimized the impact of this nationwide. When I talk about it, people think I misspoke when we talk about four and a half billion dollars to deal with over a 20-year period. They say, "Million, right? Four and a half million?"

I go, "No, billion." And they just -- it's
mind-boggling that people just can't conceptualize that
someone, a state, could make that much effort into
doing something about affordable housing for persons
with serious mental illness who are on the street and
homeless. It's -- so it's gotten an awful lot of
national attention, which puts the pressure on us to do
it right, to be the model for the rest of the country.

And because of what we've done now, my
counterparts in other states are starting to say, maybe
a partner we really should call up to start working
with is our Housing Finance Authority buddies. And we
never thought of them as someone who would be a good
partner, but that's one of the things that already
spilled out from this.

So we're at the precipice of greatness, and so
I think it really is working with you guys and with all
of our constituents to make sure that we can have this
happen.

And there is a fair amount of resistance, by
the way, because this is so new and so different, that
transformation is hard and change is hard.
Everybody -- everybody loves progress but no one wants
to change. And so convincing all our partners to do
something different or new is -- is a little bit
complicated and -- but we'll get there because the
values are right, the vision is right and the mechanism is right.

So I think we can probably answer any questions that you have.

CHAIRPERSON COURSON: We appreciate that. I will say that over the last couple of years I think this is a Board that has tried to spread its wings, if you will, as opposed to just make -- not just make, but making only single-family and multifamily loans, is look at ways to leverage our resources and our talent, both financial and our talent resources to do things a little bit outside the box, to do some different things. And this clearly is one that is a shining example of an ability to leverage our capability and our dollars along with the expertise from the mental health side to provide some special needs housing.

It's interesting, over the last couple of months I've given a speech to the National Association of Home Builders followed up by another talk with the Harvard University Real Estate Advisory Group. And part of it -- and the topic it seems is always housing in California. Everybody is -- there's sort of a curiosity thing about housing in California.

And when you come down, I always come down to talk about CalHFA and how we're trying to do things a
little bit outside the box and expand our scope. And you bring up the topic of homelessness, and you can sort of see there's a disconnect between talking about housing in California and homeless. They don't put it together until you talk about an initiative like this and talk about the ability to do public/private partnerships, enter interagency partnerships, and all of a sudden, the lights go on.

And I will tell you just in follow up to that, I have had -- in fact, I just had another call from the state of Colorado wanting to know if they can get some information. The chair of -- my peer there, my chair -- the fellow chair there is a good friend of mine. And also the same thing in Kentucky. Kentucky, as Terry knows, is on this. So we are looked at, and this initiative is exciting, but also, as Darrell and Dr. Mayberg said, it puts pressure on it to make sure we do it right. Because if we don't do it right obviously the first time, then the others look and say, "Well, that's that California again," so.

But it's exciting, and it does pique interest of those outside and even those, the homebuilders, who are here in the state saying, "This is -- this is a thing that we'd like to become involved in."

I always say, "Come on in. The more people,
the more capital, the more participation we can find, the better off we are."

Questions from the Board? Comments?

Ms. Galante.

MS. GALANTE: I had one. You know, Doctor, you mentioned that you don't know all the meshugas of housing terms, and I'm on the other side. I understand the housing terms and not the mental health terms. So you made a comment about this really has to happen through the counties, and, you know, I just wanted to know if you could expand on that. Because when I think about what you've outlined, you know, my mind goes to an RFP process that's run by the State that may have some, you know -- whatever element of the state that may have allocations by county but that, you know, to get the best kinds of proposals, when you talk about a mechanism, you know, you would be looking at housing developers and providers coming forth with a plan, you know.

And it seems to me that my mind goes, "Do you want to centralize that process?" So -- but I heard you say that the counties need to do this. So can you help me understand whether that's a requirement or...

DR. MAYBERG: You are a quick study. That is one of the dilemmas we have. The Prop 63 initiative
says that the services, all the services, need to be
provided by the counties. And so clearly any of the
supportive services need to be guaranteed by the
counties. And so unless the county mental health has a
relationship or works with a nonprofit or a developer
or a builder or a city or any government entity, this
doesn't work. So it forces that public/private
partnership, and it forces a conversation that hasn't
occurred before.

I don't think that mental health folks ever sit
down with developers or with the people who do housing
in cities, or in the counties even, to talk about how
do we work together. So that -- that is the first
part, that it -- and that makes it difficult. That's
why we have to work this out.

And then the issue is really should this be a
county by county allocation? Should this be a
statewide pot? Should this be regional allocations?
Should there be set-asides? One of the things that we
will do is look at a number of proposals that --
fortunately in the budget we have some money that we
have in the department for technical assistance because
we realize that most of the social service field,
mental health field, really doesn't even know what the
initials stand for, much less who the people are.
So we'll begin right away being able to provide some of those linkages and brokering some of those meetings at the local level. And I think secondly, we have some staff that are going to be dedicated solely to be available to provide that kind of technical assistance.

By linking this in with the Governor's Council on Homelessness and then we spent three days meeting with all of the representatives from cities and counties that are dealing with the issue, we see that the table is much larger than we ever expected. So it is going to take some -- some time to get everybody to be able to make the connections that are necessary.

And so those are the -- the visionary has a great idea, that those of us at the department level think it's a great idea, but there are a lot of those details to work out in that from our point of view, we mostly hear from the mental health side or social service side. It would be helpful if you could get us feedback, through Terry or directly to me, about where some of the rough spots are on the development side, because then we can do something to try to mitigate that.

MR. STEINBERG: May I just add I have another great idea here. Steve is right. The challenge here
with the implementation of the initiative is that it was written to ensure that it was -- that it is county driven with state approval and oversight.

Having said that, in my view, this housing initiative is a prime opportunity to begin thinking and acting regionally. I know, for example, that in the Bay Area, I'm not sure if it's the Bay Area Council or the Organization of Bay Area Governments, has actually talked about Prop 63 and housing and have talked about taking a regional approach. Because these problems know no artificial boundaries.

And what I would like to see is, as this develops, is to see a region like the Bay Area and other regions throughout the state put together, if you will, a consolidated proposal working with the development community to maximize the impact within a region. I sure hope that's where the conversation goes here, recognizing that the legal requirement is that the money flows through the counties.

And obviously the counties are our partners. They are the mental health -- they're not necessarily the direct-line providers, but they're the ones that work most closely with the providers. But with this initiative, we need to work with them to think about bringing their counties together on a regional
approach.

MS. PARKER: I'll add just a little bit more
detail for the Board's consideration.

As Darrell has said -- and I think that we're
sort of cutting layers of where we're trying to go and
what we're trying to achieve. As I mentioned in my
opening remarks, the complexity of this is tremendous.
The stakes are incredibly high.

And there is not a process yet developed for
this. We have purposely done that so that we have the
opportunity to be incredibly thoughtful in the process
because we know that there are so many people involved,
and we don't want to have a process put out there that
immediately becomes the target for everybody to kind of
go crazy about.

So our discussion is to really put together a
small working group, and that working group would
include at the state level the Department of Mental
Health, CalHFA, HCD, probably the Governor's Office OPR
because of their role in homelessness, but the
counties, the county mental health directors, the
county welfare directors, developers, and the
constituent and advocacy groups, but a small group, to
try to work on the development of the process. We want
to have people who are knowledgeable about the mental
health side and also the developer's side so that what
we put together as a process does not become so
overwhelming and so much brain damage that nobody wants
to do it.

And we also have the opportunity, though,
whether or not we put in all the state levels all the
different housing resources that come in, to see if we
can do it in a way that doesn't have people apply for
this money and then miss out on other pots of money.
So Bill and I had discussion last week about the
involvement of tax credit and also tax credit equity
entities from the standpoint of what would they want to
see in order to be able to participate in this
initiative.

So that is our next focus, is really to work on
a process that, you know, provides certainty for people
of how to go about this. We want to use some of the
models that the developers are familiar with on how
housing credits or bond cap or whatnot is done so that
they don't have to reinvent themselves, but there'd
also be assurance at the local level that counties are
making a choice about whether or not this development
will receive service dollars and they want this project
to be in their locality before it goes through the rest
of the process. So that is our next challenge.
I also want to let the Board know that part of
the reason for CalHFA to be involved in this is
initially it's really seen as a pay-as-you-go process.
$75 million a year in applicants for that. But we
hope that over a period of time if the demand exceeds
the amount of money that's available every year, that
we can be looking at being creative and there will be a
discussion hopefully at some point in time of seeing if
we can develop a warehouse line so that CalHFA could be
sort of fronting money to get these projects built as
soon as possible. And that's, again, what role we see
might be a possibility for us in the future.

CHAIRPERSON COURSON: Mr. Steinberg, I'll
comment on your regional idea, too, because that's one
of the things we've done is we think it's incredibly
important for us to work closely with cities and
counties, and we've taken on an initiative to work with
mayors in identifying their needs to come in and do
a -- leverage our resources with their needs. We
started down the path with doing a Bay Area Regional
Housing one-day meeting, just to identify in a region
what we can do, rather than scatter and get into
pockets of money, is there something within a region.

So Terry, that might be an opportunity as we
move forward to get that initiative because we seem to

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be able to gather those people and the housing folks
together and put forth with them some ideas -- not just
this one, but others too -- but clearly with the
homeless thing, if we move down that path, we could
certainly return to that whenever the time is right.

And I guess my second would be a question when
the time is right. I'm sitting here, and I must say in
all candor I'm hearing a process that sounds daunting,
time-consuming, detailed, paper intensive, and so I
guess my real question is when does the rubber hit the
road? What is the time line for, in fact, getting
through the process and starting to really put some
sticks and bricks together?

DR. MAYBERG: To my staff's chagrin, I'm always
unrealistic and make them deliver. We'd like to really
be able to have something out on the street by January,
is what we're aiming for.

One of the things we have to be aware of,
though, is because it's $75 million a year, we've got
to let a little bit of money build up in this to be
able to have some be there, so if we can have that
within six months, I think that's a good beginning and
that then at least we have two or three years' worth of
money set aside and the initial projects can get going.

MS. PARKER: I think, Mr. Chairman, you
actually bring up a good point so that I can use this
as an opportunity to inform the Board. I think as I
have spoken at previous Board meetings about staff
resources, that is a fundamental concern and has been a
fundamental concern of mine, as you are well aware, for
several months. We -- when we talked with this
initiative and made the presentations to the Governor's
Office about doing it, we really talked about the
inability on CalHFA's part to be a good partner in this
if we did not have the resources to essentially
accomplish the complexity of this.

So we have sort of two necessities or two
fundamentals in order to be able to be a partner at the
table, and they really come about -- I want to give
substantial credit to our bond counsel, Stan Dirks, who
helped us throughout this process. I can't speak
enough about Stan's good work.

First of all, he advised us that we needed to
seek legislation to get a category of special needs
housing. Right now our statutes really envision that
we either have loans that are multifamily or they're
homeownership, and they really don't deal with sort of
the client that we're serving. And so we really have
had tremendous complexities, as you are all well aware
of, on the Bay Area Housing Plan. And when you're
looking at a four-and-a-half-billion-dollar program, you want your statutes to be able to be as smooth to provide your investors certainty. So we need to seek legislation in order to get that category established.

We also are using that as a vehicle, which we'll talk about later, to give us authority to be able to manage and retain and recruit qualified individuals, and that goes back to our salary-setting issues, which we'll talk about that probably a little bit later.

This legislation is just in its first policy committee last week. Very successfully moved out of that. Our expectation is that this legislation will move through the process over the next month and a half, be signed into law, which will give us this authority of this new special category.

As what Steve was saying, I think we're envisioning these work groups to come up with this process in the next months, fall, winter to be able to announce that for consideration and applications at the beginning of the year. That's what we sort of have as our time line. So that's how -- we need legislation. We need to do our working group, and we're planning the time frame to sort of complement one another.

CHAIRPERSON COURSON: Any questions, comments
from the Board?

MS. ROBERTS: I'd like to make a comment.

Speaking as a representative of the Governor's Office
of Planning and Research, which is a think tank within
the Governor's Office and was originally charged with
developing the thinking on the homelessness issue, I
just want to say that we're very gratified that we've
made the progress that we have today. There's so much
collaboration. We're seeing great partnership and
involvement by so many different entities, not just at
the state level but in the private sector as well, at
different levels of government.

There's been a lot of comments today about the
sort of spotlight on California, putting pressure to
deliver on this and we may be sort of a model for the
rest of the nation, but we believe in California and
Californians. We have a lot of creativity, a lot of
persistance, a lot of brain power. And just the
questions and discussion that I'm hearing today make me
feel hopeful that we are going to be thoughtful about
this and figure out a way to make this succeed.

Because I think everybody understands the
Governor likes to think big. This is a very important
issue for California, housing in general, but in
particular for the homeless and for the mentally ill.
This is something that could be a legacy for all of us. Thank you.

CHAIRPERSON COURSON: Thank you, Ms. Roberts.

Dr. Mayberg, Mr. Steinberg, thank you very much for coming.

MR. STEINBERG: Thank you.

CHAIRPERSON COURSON: And I assure you, you have the unqualified support of this Board as you move forward with your initiative. And Terry knows she's got the resources, and we'll get her the resources to perform.

DR. MAYBERG: Thank you.

MR. STEINBERG: Thank you very much. We look forward to coming back.

DR. MAYBERG: We'll come back in a year and tell you how well it's working.

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Item 5. Discussion, recommendation and possible action relative to the organizational documents and procedures of CalHFA's Board of Directors' Audit Committee

CHAIRPERSON COURSON: The next item on our agenda is the discussion and consideration of the charter for the audit committee. You'll recall that at our last meeting we approved the formation of an audit
committee and confirmed and the Chair appointed Mr. Shine as the chair of that audit committee, and the other members being Mr. Carey and Ms. Galante.

The mission was at the last meeting to put together a charter, if you will, that would sort of guide the work. I will call it a job description, if you will, for the types of things to be considered and working jointly between the staff and the audit committee as part of their tasks. You have that charter. It has been sent to you, and I believe it's also at your table. And it's covered by a proposed resolution.

And Dennis is going to, I think, make a presentation, walk us through some of that, and then Mr. Shine may want to comment as the chair.

MR. MEIDINGER: Thank you, Mr. Chairman, Members of the Board, and members of the newly formed audit committee.

As you know, the audit committee was formed and created and approved in Resolution 06-08, and the main purpose of creating the committee is to provide the Board with the direct link and involvement with our auditors, agency management and staff in connection with our auditors and related financial matters.

So now that the committee has been formed and
appointed, the next step is to discuss processes and
procedures of how the committee will operate. We
therefore submit for your review and approval the audit
committee charter.

This charter is similar to one used in other
state housing finance agencies, Colorado being one of
them. And we are proposing that this charter be used
as a start and suggest that it can be reviewed and
updated in the future as the focus of the committee may
change.

If we take a look at the actual proposed audit
committee charter, the first three items here, the
mission, the composition and the authority are pretty
much already set in stone by the Resolution 06-08. I
just wanted to bring your attention that initially
we're, at least as far as the number of meetings per
year, proposing at least two per year as we do have two
major funds, and they're both on different year-end
dates. The Housing Finance Fund is on a state fiscal
year basis, and so it has a fall audit. And our
California Loan Insurance Fund is on a calendar basis,
and so it has a spring audit.

If we actually take a look at the -- some of
the oversight activities, I can go over them very
quickly here. No. 1 is to periodically review the
Agency's policies and procedures, take a look at the Agency's significant risks, and what steps are being taken to minimize risk for the Agency.

Items No. 2, 3 and 4 involve direct involvement and interviews with our auditors. For instance, No. 2, that's where the auditors will come in and go over the scope of their audit. No. 3, after the completion of the audit, they'll go over the results of the audit. And No. 4, they'll present their findings and recommendations.

Item No. 5 is, as I said, where the committee can recommend to the Board any changes in scope as they go through perhaps a couple of audit reviews. And if they feel that the scope would possibly change, they would, in fact, make recommendations to change this charter, as a matter of fact.

Item No. 6 is reviewing the Agency's selection process. And this is rather significant because at the end of October, our Deloitte audit contract, which has been a multiyear contract, is going to be expiring, and so we are going to be going out to bid. It used to be that we would get eight different bids from the Big Eight. Now it's consolidated down to the Big Four. So we hope to get four bids for our audit contract this year.
Finally items 7 and 8, reviewing the legal and regulatory matters as they impact our financial statement and reviewing conflict of interest or code of ethics, we would recommend that we would possibly bring our general counsel, Tom Hughes, in to give us information and guidance on those two final items.

So in conclusion, if you agree with our proposed charter and approve Resolution 06-15, I would then recommend that after our October audit and perhaps for the November Board meeting, that I would have the Deloitte auditors accompany me, and they would go over the scope of the audit, their results, findings and recommendations, and any other questions that you would have on their audit. And at the same time, I would make a presentation such as I did last November going over the results and comparing them with the prior year.

Any questions?

CHAIRPERSON COURSON: Mr. Chairman, do you have any comments?

MR. SHINE: No, Mr. Chairman.

CHAIRPERSON COURSON: The purpose here, as we talked about before, is not to turn three of our fellow Board members into accountants or financial managers. It's really oversight. We want to make sure we work in
conjunction with the staff and as a Board that has a fiduciary responsibility work with them, as we work through the selection of auditors, looking at audit results, and just as really frankly an assistance and, if will you, a 'safety net for the staff as well as fiduciary responsibility to the Board in reporting back to us after the audits.

So it's really a matter of oversight in the sense of -- and I think the auditors themselves, at least my experience is that the auditors themselves like a person other than the line main staff management that they can also report to to put forth any issues or concerns they may have and we'll give them now that opportunity. They're very comfortable and, in fact, support having this audit committee as we have created it.

Any questions of Dennis or anyone else?

Then a motion would be in order to approve Resolution 06-15, which is the adoption of the charter that's attached to it.

MS. JACOBS: Move approval.

CHAIRPERSON COURSON: All right. Ms. Jacobs moves approval.

Second?

MR. PAVAO: Second.
CHAIRPERSON COURSON: Mr. Pavao seconds.

Is there any discussion?

Then we'll call the roll, please.

MS. OJIMA: Thank you.

Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Mr. Augustine.

MR. AUGUSTINE: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

MS. OJIMA: Resolution 06-15 has been approved.

CHAIRPERSON COURSON: Thank you.

MS. PARKER: Jack, did you have something to add?

MR. SHINE: No. I think the job that the staff did in drafting this and the comments that were made, the changes resulted in a good document. I believe
that we'll do what we can to fulfill the requirements set forth in it. And if conditions dictate that changes or modifications are necessary, then we'll consider those, deal with them, and bring them back to you.

CHAIRPERSON COURSON: All right. Thank you. Thank you, Dennis. I think at this point let's take about a ten-minute break. I show it's 10:30, so at 10:40 we'll come back and complete the agenda.

(Recess taken.)

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Item 6. Discussion, recommendation and possible action relative to the possible creation of CalHFA's Board of Directors' Compensation Committee

CHAIRPERSON COURSON: The --

MS. PARKER: Mr. Chairman and Members.

Mr. Chairman.

CHAIRPERSON COURSON: Yes. As I was about to say, the next item on our agenda, as you can see, is talking about compensation. And before Terry gives us the status where we're at, let me review for everybody.

At the last Board meeting we had a very extensive and I would say robust discussion regarding compensation and talked about and Terry gave us a
status as to where we were in terms of achieving legislative approval for the Board to determine and set compensation based upon a methodology to be developed for staff.

And as part of that discussion, I think you'll recall that there was conversation regarding the Board's ability and authority, if you would, based on original statutes to set compensation. And we talked about some of the historical events that had taken place that in effect had moved or ceded that authority over to the DPA. And we asked counsel at that meeting if he would in fact put together a document for us to review that had the sort of a chronology, if you would, of the events and also cite for us language in the statute so we could have that document to look at it as a basis of fact and a basis of history to make a decision on the Board as to how we wanted to proceed.

You have that document. It was sent to all the Board members so you should have that. I would say to counsel, good job. I thought it was very, very informative and certainly met the marks that I was looking for as I tried to get a basis on which to move forward on any future discussions we had.

Since that time, obviously in 60 days in state government or any government, a lot of things can
happen, and so at this point I'd like to call on Terry
to sort of bring us up-to-date, if you would, give us a
status of where we're at, and then we'll circle back
and have a discussion on compensation.

MS. PARKER: Thank you, Mr. Chairman.

Just before I begin my remarks, if there is any
Board member who does not have a copy of the letter
that I sent out, I have copies available to them.

All right. As the chairman noted, we had a
very lively discussion about salaries and the
recruitment and retention issue at our last Board
meeting. I had asked the Board to give me a little bit
of time to continue to do some of the work that we were
doing internally on this issue and -- but also send out
to you, as requested, information on what the history
has been about the Agency and setting salaries.

I'm very happy to report to you today that we
have been successful in what we think is a very
important step to dealing with recruitment and
retention issues for the California Housing Finance
Agency going into the future with the introduction of
SB 257. As I mentioned just a few minutes ago, this is
the piece of legislation that originally started as
sponsored legislation by the Schwarzenegger
administration to accompany the housing initiative, the
Homeless Initiative Phase II.

It includes the language in it required --

recommended by our bond counsel in establishing a

special needs housing category, but is also a vehicle

which has been amended with language, actually based on

the request by Mr. Steinberg of the author of the

legislation, Senator Chesbro, to add this language in

it, which clearly defines that the Board of the

California Housing Finance Agency sets the salaries for

the exempt appointments for the staff of the California

Housing Finance Agency, to clarify that.

It has -- the language would dictate a process

whereby the Board would set these salaries based on a

salary survey to be conducted and reviewed by the

Department of Personnel Administration. The

legislation had its first hearing a week ago in the

Assembly Housing Committee. That's where the bill was

currently sitting before it was gutted and amended with

this language on special needs and salaries.

It was very successfully heard in that

committee last week due to the very fine staff work of

Di Richardson with the committee consultants and all of

the various advocacy groups. We had great support by

the Western Center on Law and Poverty. The cities

spoke on behalf. The Mental Health Directors
Association spoke on behalf. Cooperation for Supportive Housing spoke on behalf of this legislation.

And I must say that the sponsor of the legislation, Senator Chesbro, is very, very supportive of the opportunity of carrying this bill and the important significant work it will accomplish.

So we feel at the moment that this is a very good -- will put the Agency and the Board in a position of being able to dictate salaries based on what the market will dictate so that we can get the quality and caliber of staff that our rating agencies would demand in order for us to do the complexity of the kinds of deals that we have done in the past.

So I think Tom and I are both here to answer any questions on the material we have submitted to you. There is a copy of SB 257 at your desks. This is the bill that we are currently working with. And the legislature, as you're all aware, has adjourned for their break. They expect to be coming back in August around the 7th. It is set for its next committee hearing, I believe, on the 16th, where it will go to Assembly Appropriations, then on to the floor, and then back over to the Senate.

So both Tom and I are here to answer any questions.
CHAIRPERSON COURSON: Obviously -- thank you, Terry.

Obviously we've made great progress since our last meeting 60 days ago. Are there questions of Terry or Tom?

Let me mention, if I may, I think the follow-on to this is that at the last Board meeting, if you'll recall, Mr. Morris raised the suggestion that we should consider having a compensation committee as part of the Board. And I think at that point, as I recall the discussion, we talked about that that would be considered -- something to consider, but we're obviously not quite sure which direction this legislation and what a compensation committee may or may not do, depending on who has the ability or capability, authority, if you would, to determine compensation.

My suggestion, but I'm certainly looking for input from the Board, is -- my thought is that as we're moving forward with this legislation to find ourselves, to get ourselves ahead of the curve, if you will, if we're going to be setting compensation for senior staff, it would be, it seems to me, appropriate to consider having a compensation committee, some way to really vet through the methodology which is part of
this legislation.

There needs to be some basis on doing this, based on research and study, that we would have to work through that methodology. There's going to have to be some requests for proposals, would be my guess, to put this out to have people determine methodology and then coming back and actually making some recommendations to the Board.

So based on the sense of the other directors, it would be my recommendation that we go away from this meeting and say to staff, and I would name myself if I may be so bold as to work with them, to put together a compensation committee draft charter like we did for the audit committee, sort of outline what their tasks and their roles would be and have that ready for the September meeting, and at that meeting -- circulate it obviously prior to the meeting -- get comments, get input, and see if we can agree on a role of a compensation committee and be prepared at that September meeting to appoint a compensation committee.

My thought being that as the legislature winds down, we are going to know either by our September meeting or right around that time or shortly thereafter if, in fact, we have our legislation.

If we do, we then need to be prepared to move
ahead. It's my understanding the legislation as it's written will be effective on January 1st, but we have only a September meeting and a November meeting. So my thought process is in September, if we can agree upon a compensation committee charter and appoint a compensation committee, then the methodology issue and all that needs to be done and prepared to be brought back to us at a November meeting. And so I think the time line calls for us to start that process, but I certainly am open to any discussions or comments from the Board.

Mr. Carey.

MR. CAREY: I'd certainly agree with that. I think that regardless of what happens with the legislation, the information and the data and the process that could be put together would be helpful to us long term, understanding the disparity between this Agency and the rest of the nation.

I guess my one question is, doesn't the current statute in essence give the authority of the Board to set salaries and wasn't that sort of just over -- rejected by personnel? What is it that will make this bulletproof?

MR. HUGHES: Mr. Carey, that's correct. As I had pointed out in the memo that I wrote to the Board,
the Agency has statutes which -- or has a statute which provides that the Board sets the salaries of employees of persons other than those paid through the General Fund, which of course this Agency does not have any staff paid through the General Fund.

That -- that issue went -- when DPA was created, became an issue that needed to be resolved as to what the effect of the creation of DPA was. And as my memo had pointed out, initially the Attorney General had opined that, in fact, CalHFA did have -- the Board did have that authority. And the AG later issued a subsequent opinion that reached the opposite conclusion.

So as a practical matter, the Agency has -- at least since those days, has not had the practical ability to exercise that right in light of the evolution of those opinions.

But the interesting part, of course, is that the Agency was originally founded and envisioned as along a private corporation model. And the founders of the Agency actually devoted some thought to attracting and retraining qualified persons to run the operations.

As an aside, the original legislation to create the Agency was a constitutional amendment and, in fact,
had exemption from civil service. That did not survive
the legislative process and ultimately was -- became a
normal statute without a civil service exemption.

But the structure of the Agency, again, was
premised along the line that this would operate more
like a private corporation and the Board would have
those kinds of authorities. So I think when the Agency
became, in fact, a state agency, we have since walked
that tightrope between the structure modeled on a
private corporation with a public purpose and a
traditional state agency. And as things have evolved,
we've found ourselves where we are today and needing to
reconcile those differences.

CHAIRPERSON COURSON: Ms. Galante.

MS. GALANTE: Yes. I actually have a question
and a -- two questions.

The first is it sounded to me like you're
satisfied with this legislation the way it's written,
and I don't mean this to be a loaded question, but, you
know, I know in the nonprofit industry the way
compensation for highly paid people is done is a salary
comparison, not only to nonprofits but to the private
sector as well. And if I read this right, and I read
it really quickly, this really sets out a methodology
that compares CalHFA personnel to other housing finance
agency personnel. And we all know that California is
the eighth largest economy in the world, and, you know,
comparing salaries to the, you know, directors or
multifamily lending people in Wyoming may not be the
most appropriate. There's a lot of private sector
financial institutions that might be better
comparables.

So you know, if this is satisfactory and this
will do it, I'll shut up. But -- and if this is the
best we can do, we think we can do, legislatively, then
so be it. But I just wanted to kind of put that out
there that it seems fairly limited. I mean, it's
better than what we -- at this pass this is better than
what we have today, but I would say it's not yet ideal.

CHAIRPERSON COURSON: Can I comment on that
just a minute. A couple of -- Carol, I've looked at
that very carefully too, and I come at it a couple
ways. One, they're talking about determining
compensation in this methodology, and I think as part
perhaps of the consideration of this compensation or
however we decide to move forward is there are
certainly other housing finance agencies that have
certain standards based upon cost of living and
indexes. I mean there's some measurable indices out
there that you could take a Wyoming or a Kentucky and
look at California and make some comparisons, and I
don't see being precluded doing that. I think that's
one of the things they're asking.

And plus the fact, frankly, "other relevant
labor pools" seems to be a fairly big basket out there
that as a compensation committee and a Board, other
relevant labor pool says to me California is a labor
pool, obviously, of certain positions we're looking at.
So that might take -- when I looked at it, I had the
same question. I looked at it, and I thought about it,
and I said it'd probably has a pretty wide expanse of
flexibility.

MS. GALANTE: I didn't see that.

CHAIRPERSON COURSON: It's on page 4 of the
handout of the actual bill itself. It's page 4 and
it's --

MS. PARKER: It reads: Other state and local
housing -- "A survey shall be conducted looking at
other state and local housing finance agencies that are
most comparable to CalHFA and other relevant labor
pools."

Ms. Galante, let me -- I'll try to be tactful
in answering your question. We try to walk a very fine
line. This is actually -- the language is drafted by
the Housing Finance Agency. We tried to be very
careful about how we drafted this language in order to,
you know, not create what would be perceived by people
as the Agency trying to be cowboys off the reservation,
you know.

This is a very sensitive time, given what's
happened in the last several months with the University
of California. I think people are very concerned about
public entities and salary setting. So we really tried
to be very careful.

I would point out to you, actually it's a bit
ironic, but my colleague who runs the Wyoming Housing
Finance Agency's salary is about almost $30,000 more
than the executive director of the Housing Finance
Agency. So, I'm not sure that that would be such a bad
pool to be in. But certainly if you looked at what
would be comparable housing finance agencies across the
country, the salary differential is substantially
greater.

But it's not just for the executive director.
I think the important part is to be looking at the
salaries for comparable positions and that that's why
we're looking at the housing finance agencies. There
are at least a couple of them that have mortgage
insurance that they run, and they have a director of
mortgage insurance, and those salaries would be a
significant increase relative to the salary that we have available to currently retain someone here. I think it's also fair to say that local government's housing salaries are substantially greater than ours, but we would be looking -- it would be a comparable labor pool.

We had some discussions with the Department of Personnel Administration in trying to draft this language to see what they would be comfortable with because the reality is since these positions are appointed by the Governor, that is a reality and that is who advises the Governor on salaries. They -- their one feedback to us was that we should be looking at what are relevant labor pools, and that being not just the banking community.

So I think what we've tried to do is put language in here that would be -- you know, we have to make a case for that, and that's the whole basis of what would be a reasonable survey for consideration. But I think that given what I'm aware out there, if we are successful in using those other entities as benchmarks, we would at least be able to be competitive in the marketplace here, as I said, get the kinds of staff that we feel we need.

I did want to also add, Mr. Chairman, to your
comments about the establishment of a compensation
commission. One of the things I have been particularly
concerned about, and we've talked about this at the
last couple meetings that we've had, is our most recent
rating by Standard & Poor's and their concern about our
vacancies.

As you are all aware, every time we do an OS,
we have to report on what really constitutes the
officers of the Agency. And right now we're having to
report that there are many vacancies for the purposes
of our investors because ultimately they are the people
who -- whose money we are utilizing.

So this legislation is something when we go
back and talk to the rating agencies in the next month
or two about our annual review, we want to be able to
tell them about how we are addressing this particular
issue. And I think from the standpoint of going
further and talking to them about the establishment of
a compensation commission, that the Board tends to, you
know, try to take some action when there is the
authority if this bill passes, effective January 1st,
will all go to, I think, relieve them that there is a
plan in place to address that there will be the caliber
of staff necessary to meet the required level of
complexity that the kinds of deals the Housing Finance
Agency has done in the past and hopes to continue to do in the future.

CHAIRPERSON COURSON: And timing wise our next Board meeting to consider that draft will be before the trip that Bruce and Terry take to meet with the rating agencies in September, so the timing is good.

MS. PARKER: And that's -- these are all the things that we said were really important about why we needed to put this in place and motion because it's -- again, at the end of the day, if we lose our rating, then we're out of business. So that's the importance. We're trying to do all these things at the same time as well as having staff here to continue to oversee the portfolio that exists, let alone bringing in new business.

CHAIRPERSON COURSON: Did you have a second question?

MS. GALANTE: I guess the other question was just does the Board need to do anything affirmatively with respect to this legislation, or do you need any additional assistance from us, I guess is the question?

MS. PARKER: Well, I'd probably defer that to Di. We -- I think we want to make all of you aware of this. We tried to be really good about getting good support when we had our first hearing. It's going to
be over in the Senate side. The bill won't have very much time to move, so if there's any glitches, you know, in our path, with the three weeks left in the session when they come back. So I think we can say in the next month Di will be -- this is her life -- monitoring that process. And I think I would certainly be calling upon all of you and any of you if there is -- if we feel that there is a need to make calls or, you know, speak to any groups, I will be calling and asking.

Right now I think it is a collective. If you have a chance in any appropriate setting to say 257, this is what we're looking at, this is, you know, we all believe what we need here, need this. I think that we have good support so far. We are generally comfortable about it. And we want to make people aware of it and have them be comfortable that this is not something that we've done in the cloak of darkness, that this will be a public process when it's considered. The Board members were all alerted of this and know what your responsibilities are, and this won't be something that will be like what, you know, people have perceived with University of California.

CHAIRPERSON COURSON: Mr. Augustine.

MR. AUGUSTINE: I just wanted to add that the
administration is supportive of this bill so if -- in the hopefully unlikely event that there is trouble, that we're going to be able to marshal our resources behind the bill as well. So Di and I will work very closely that way with the folks in the Governor's Office to ensure passage of the bill.

CHAIRPERSON COURSON: Okay. Mr. Carey.

MR. CAREY: I wonder if it would be appropriate to have any sort of basic information about comparability with other states that would be just numbers that would be helpful to allow a comparison so it's clear what we're talking, that we're not just talking about something we imagine, you know, similar housing agencies.

The other point I would make is that I was sort of thinking about this, and I'm extremely supportive of it. I also think it's a -- will be a significant step in responsibility for this Board and public visibility for decisions we make. We just need to keep that in mind.

CHAIRPERSON COURSON: I agree with that a hundred percent. I think that it raises our level of responsibility, and as, you know, servants serving on this Board we have a fiduciary responsibility to -- to the Board, to the Agency itself, to the citizens of
California and to the staff, and that's going to be a balancing act we are going to have to work on. I think that's why this compensation committee and the process is so important.

I think that it will be -- as several of you have mentioned, I think that the methodology that we use needs to be pretty rock solid in terms of using proper data and analyzing it and making reasonable conclusions and decisions based upon the data available to us as opposed to some decisions that get made through just sort of dead reckoning, and that's something that this Board really cannot be allowed to do. So I think we do take that responsibly. And that's why we need to get started. This is not something you do over a 60-day period. We now have a six-month window to really move that process forward, and I'm suggesting that we start on it in terms of getting this charter and getting moving.

MS. PARKER: Mr. Carey, we do -- and I'll bring back -- either send it to the Board or bring back to at our next meeting, we've done some work really to supply the data, not just, you know, speak to inequities, but really to document, which one looks at the ten most populated states' housing finance agency and what those salaries are and also to try to demonstrate the
uniqueness of housing finance agencies within individual states.

So for example, we did some comparisons of what the -- a couple of -- like the director of the Department of Motor Vehicles, the director of the Department of Social Services and the Housing Finance Agency salaries are within states so there was a -- you know, an acknowledgement in most states of it being a different entity. So I have that.

I also have some information about doing some comparisons of the -- what our assets are relative to other housing finance agencies and their compensation salaries. So I can give that to you, send that to you. And I think it's a pretty quick picture of what the situation is.

And you know, you can just -- if that's the top salary, you can just recognize going down what that feeds into the organization for the general counsel, the director of multifamily there and their other key positions. So I, you know -- we've done that to try to document this all along so the standpoint everybody can be, feel comfortable that this is based on documentation, justification and merit.

CHAIRPERSON COURSON: Other questions or comments? If there's no objection, then I -- we will
move forward and take -- I'll the responsibility of
working with staff, and we will put together a draft of
a compensation committee. Again, we can feed off of
other similar groups to ours that have it, as we did
with our audit committee, and bring that back in
September for consideration by the Board and be
prepared to appoint a compensation committee at that
time so that we can then move to the next step and
start with the data and the methodology. Okay. We
will accomplish that by September.

MS. PARKER: Thank you, Mr. Chairman. Again, I
would just want to reiterate on behalf of the staff our
appreciation for your strong support on this issue.
Thank you.

MR. HUGHES: Thank you.

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Item 7. Update on Bay Area Housing Plan

CHAIRPERSON COURSON: Okay. The next item on
our agenda is, as we have is our custom, to let Kathy
and Edwin give us an update on the Bay Area Housing
Plan. Never short of facts, figures and data in front
of you, you have several pieces of information. I'll
let them describe what we have.

MR. GIPSON: Good morning. I'll let Kathy go
through the details of exactly what we have, but in
general those are some of the write-ups that have gone
before senior staff as we accept each collateral piece,
and the top piece of the paper is a running list of
what's going on at the current moment. And we've been
keeping quite a few people very busy with this,
numerous staff. Kathy can testify as to how busy,
particularly Liz Hogan as well, who helps us keep track
of a lot of these items as well and has put that
package together for you today.

As some of the homes start to be purchased, we
are now identifying some of the new trends, and we are
watching the cost numbers for which we will once again
report back on that as well. But we are seeing some of
the firm numbers. Costs are coming in. All the costs
with all the reserves and everything else are coming in
around $200,000, a slight difference than what the
developer projected, but we have all these reserve
numbers in there as well, so just a little difference
in how the accounting is coming forth. The purchase of
the homes is a little bit more expensive, but the rehab
is probably the kicker on top of that to get these
homes into the shape that we have.

I will let Kathy go through the detail of where
we are at this point and what's happened since our last
meeting.
MS. WEREMIUK: Good morning.

Over the last two months, we've been busy. One of the things we've done is finish up the facilities close, which is the overall package of commitments on the property, the most important of which was the creation of the three limited liability corporations by the nonprofits who are going to be eventually our borrowers. Those have been created. They have assumed -- the new limited liability corporations have assumed all of the responsibilities of the nonprofits.

We've also started the process -- Hallmark has started the process of acquiring homes. And you'll see in front of you there will be three complete write-ups. The Board has approved approximately -- or the senior staff has approximately 5,500,000 in loans for 1527 and 1529 Eden, which is in San Jose, 1320 Baywood, which is in San Jose, and 227 Prague, which is in San Mateo. To date two of those loans have been funded by the Bank of America. And the properties have been purchased, and the third will be purchased, I believe, next week, Tuesday.

The developer has -- in those, in the packages that you have along with a narrative, there is a budget from the master developer, which is approved by Bank of
America and we accept -- in our process, we accept
their numbers. We don't reunderwrite the budget as
Bank of America approves it. And then there's also a
conditional approval, which is a review by staff of all
of the due diligence listing the conditions under
which -- or which have to be met at the stabilization
for the Agency to agree to purchase the loan at the
loan amount.

Behind the papers that you see, we have gotten
what is really our security, which is a lease that's
been executed by the master developer and a service
provider and acknowledged by the three regional center
directors, an estoppel from the regional center
directors which agree to pay the monthly lease rate,
which includes our debt service on each of those loans
as well as management, taxes, insurance and reserve
costs. And we also get an estoppel from the nonprofit
LLC agreeing that they will become the ultimate owner
of the loan at conversion or the transfer of the --
purchase of the loan by the Agency from the syndicate
Bank of America is administering.

The -- you will also see as you look down the
list from properties 3 to properties 8, property
Jasmine -- a property for Jasmine, Northlake, and three
Vasonas. Those are properties that have been -- that
are under contract with Hallmark. All of the due
diligence on those has been done. The appraisals are
in. We have pretty firm numbers. They're not
completely firm. We're actually -- I think the firm
packages on that, the numbers will be firmed up once we
get new interest rate projections from Merrill Lynch,
who is our broker who is handling some of the bond
sales.

And what we're currently seeing, the first
three I thought were especially good because one of
them is a duplex, one of them is a medical model, and
one of them is a behavioral model. And they're
somewhat fitting the projections that we thought. The
medical model is the most expensive. It has the most
extensive rehab. The duplex is more expensive to
purchase because it has two income properties in it.
And then the behavioral model, which will not have a
staff housing nor special medical infrastructure, is
the least expensive of the three.

During the next month, we anticipate the next
five properties will be purchased. And then in August,
I'm showing only two but there -- we anticipate -- two
are currently in escrow. We anticipate another three
will be. And also the four properties in Cupertino,
which were previously developed will come -- will also
come into the pool.
   By the end of August, we think that the Agency's commitment will be somewhere around 33 to 34 million dollars and that with the 10-percent additional coverage that Bank of America requires, we will have about 35 million commitments outstanding and 18 properties under control. With that, we anticipate coming back to you in September for an additional commitment to allow Hallmark Community Services to continue purchasing properties.

   We also anticipate over the next couple -- over the next two months that the process of actual -- of them actually filling out the construction -- doing the construction drawings, hiring architects and firming up the construction process will happen and that there will be a procedure in place for that.

   Fine Line Construction Company is the construction company chosen by Hallmark, and they've done the initial takes, and they'll be doing -- be working with the architects and doing some destructive testing, now that the properties have been purchased, to firm up the construction estimates. The Agency will have a role in that because we've got conditions requiring that. We'll have to remove those conditions for the bank before the bank starts construction.
Financing, our finance department currently is anticipating bond sales. We were anticipating completion in about the end -- and what you will see is the colored charts are the developer's charts in terms of when they think construction will be complete. They're not completely updated, so they may -- the time line may go out a little bit past the November time line that they're showing us on this, but we think that we'll be at stabilization December, January and in bond sales February, March and beginning to take down properties at that time.

In terms of trends, Ed has mentioned them. Purchase prices and acquisition prices are higher. Costs are still firm in the market. There are still in some instances multiple bidders. It's not as hot a market as it was a few months ago, but costs for good properties are not going -- they're not going down. There is more junk on the market that's -- that's there, that isn't selling and -- or not selling as quickly as it used to. But we didn't see a decrease in prices, nor did we really see sellers being willing to extend their escrow periods beyond 30 days. Generally that's the norm.

We have seen higher interest rates, and the Bank of America syndicate rate is a variable rate.
That's pushed up some of the costs. On the interest
carry on these, it's pushed up some of the costs on our
reserve numbers. But probably more importantly, the
rehab numbers are running a little bit higher, and I
think that's because construction costs have gone up.
And the estimators have begun to get their arms around
the repairs that the regional centers are interested in
in terms of disability repairs. Most of those require
moving walls and changing the footprints of the
buildings in some ways, and that just is expensive.

So what we've seen to date is, the loan to
values on these properties, not considering reserves,
are in the low 200-percent loan to value, I think as
Mr. Shine predicted. With our reserves, they go down
to about 175 percent of value. Again, our principle
security on this is not the real estate, but is the
lease payments and the obligations of the State under
various acts of the Legislature and also legal cases to
provide support for these residents.

What we anticipate right now, beginning to look
at the first numbers, is that the initial commitment
that the Board has given of 120 million will probably
not cover the entire Bay Area Housing Plan. It may be
in the -- as I'm looking at it, I think it could be in
the range of 130 to 140 million. And that with the
additional coverage, Bank of America would like to see from us our commitment may need to be upwards of 155 million.

As we put these numbers together over the last few days, Ed and I began to -- we sent them to the regional center directors and DDS to begin a dialogue with them about this. To date they have been supportive of cost increases and have been signing all the estoppels for the higher lease rates.

CHAIRPERSON COURSON: Correct me if I'm wrong, at the time we approved the project in total, the concept of the project, what were the LTVs? Were they 135 percent?

MR. GIPSON: About 138.

MS. WEREMIUK: They were at 135 on the four Cupertino properties which were purchased a few years ago. On the later projections, they were higher. And I haven't run the numbers against them. One of my colleagues is here from Bank of America who thought with reserves they were about 200 percent.

CHAIRPERSON COURSON: I guess -- I guess where I'm coming from is we talked about some -- it seems as though the conversation is there have been some increase in cost, and I would suggest if we've gone from 130-percent LTV to 174, there's not just some
increase in cost, there's something fairly dramatic
going on here. And I got the impression when you were
talking about it, just, well, there's some increase.
It seems like there's a fairly substantial increase,
and my concern is what we're facing down the road.

MR. GIPSON: I think a lot of it is the early
numbers were estimates based off the Cupertino -- the
four Cupertino properties. And since then we've seen
increases in every single line item there is. You pick
one, it had an increase. And the real estate prices
did not provide any comfort. The rehab work that
everybody wanted was more expensive than first
projected. And the items that really needed to be done
to the house, there are just more items being done
inside the homes as well.

So when you -- if you look back to the early
days, you're right, there is a dramatic increase. When
you look in more detail exactly what those issues are,
they not necessarily falling out of line with the
reality of the market. But without a doubt, they are
higher than the original numbers.

And because of that, just as Kathy just
mentioned, we're talking back to the regional centers
and DDS. This is -- this is what they wanted. They're
the ones who are signing off on these lease payments
and ultimately, you know, particularly the regional
centers guaranteeing this debt. So either they're
prepared to do all the homes they're going to do or
perhaps they may change the number they're going to do,
but at this point we're looking at saying we're going
to go higher based off these first ones we have through
the pipe, so let's have this conversation right now.

CHAIRPERSON COURSON: And I guess the
follow-up, as we've always talked about, there is some
comfort for us in terms of the annual appropriation of
funds. Are we talking, now that this appropriation as
the Legislature considers it, needs to also be
increased to reflect these additional lease payments?

MR. GIPSON: No, not really.

MS. WEREMIUUK: Not really. Some of the
additional lease payments, 50 percent of that will be
picked up through the State's Medicaid waiver and be
reimbursed to DDS by the federal government.

In terms of the lease payments running somewhat
higher, 50 percent of it would be additional
legislative appropriations. The numbers -- and I
didn't rerun that for this meeting, but the savings to
the State will still be considerable from the cost of
maintaining residents in the Agnew Center by
approximately 50-percent reduction that the State is
going to see, even though there will be an uptake in
the lease amounts. So when the project is completed,
the State will see savings in the appropriations, but
their savings won't be as large as were originally
anticipated.

MS. PARKER: Mr. Chairman, let me just add this
from the standpoint of how the process works for that
budget item. The budget item for the Department of
Developmental Services, as I mentioned in the past, is
an entitlement. The Department does an estimate of
what they expect the costs to be for all the categories
of services for someone who is in -- covered by that
program, is a regional center client. That
information, that it was submitted originally with the
budget, was probably updated by the Department again in
May. Then when the budget is resubmitted for the
Department in the January -- in January of '00 -- '07,
the current year will be updated again based on the
most current information.

So the Department of Developmental Services
will be tracking and building into their estimates what
these reimbursement rates will be to be covered. So
there is, you know, at least twice a year, an
opportunity for the Department to continue the update
and reflective of what the actual costs of these -- of
this particular type of residential placements will be. And again, this is the basis of why the Agency, CalHFA, has felt and the partnerships with Developmental Services, that these costs could be built in and recognized as they occur.

CHAIRPERSON COURSON: Mr. Shine.

MR. SHINE: This may be naive, but when we're building onto the rents the additional costs we need to cover these overruns, is there any amortization built into that? Does this loan, including everything, get paid off at some time or is it --

MS. WEREMIUK: We have a very short amortization period. We have a 15-year amortization on the loan so there will be a point in the loan where it will go down to a hundred percent of value and then below a hundred percent of value. Our original estimate was about five years. I think it's going to be somewhere in-between five and ten at this point to come back down to a hundred percent of value. But it's a short amortization when you take out the loans.

MR. SHINE: Maybe I misspoke. When I say amortization, to me it means when a loan is amortized at the end of the day, it's got a zero balance.

MR. GIPSON: Yes.

MR. SHINE: Now, are you saying that in 15
years the entire indebtedness per house would be paid
off based upon the cash flow that we're committed to
get from --

MS. WEREMIUK: That is correct.

MR. GIPSON: Yes. Yes.

CHAIRPERSON COURSON: Other questions of Edwin
or Kathy? Comments?

Well, we will look forward to September and an
additional report. We do appreciate -- and I think
it's important for the Board and we said that we --
it's obviously a very big undertaking, a very big
commitment by the California Housing Finance Agency,
and that's why I think as we have these Board meetings
these updates are informative and necessary so we make
sure that we're informed as to where we're moving with
this project.

MS. WEREMIUK: Thank you.

MS. PARKER: Mr. Chairman, I always wanted to
point out too that our partners from Bank of America
are in the audience today. They also include the head
of their housing group from New York, so I did want to
point out that Bank of America continues to be as on
top of this as we are in partnership on complexity. So
we -- you know, we will continue. We think these --
some of the monthly updates for you are very important,
given the complexity of these deals, and we'll be
continuing to provide this information at every one of
our meetings as we continue to, you know, learn new
things about the process ourselves.

Certainly doing this project has been the basis
for looking at the homelessness initiative and making
sure that the Agency at least has the wherewithal,
statutorily, to take on the complexity of these kinds
of deals.

CHAIRPERSON COURSON: Thank you. Thank you.

Item 8. Reports

CHAIRPERSON COURSON: The next item on our
agenda, I'm going to ask Bruce Gilbertson. You have
some financing reports at your place and ask Bruce to
give us a report on financing activity of the Agency.

MR. GILBERTSON: Good morning, Mr. Chairman,
Members of the Board. I have three financing reports
that I'll review with you briefly this morning. Two of
them are recent bond issuance activity, and the third
one is the update on a variable rate bonds and interest
rate swap portfolio.

In April we sold $180 million of housing
program bonds that were issued on May 2nd, and as you
can see, in June we sold about $77 million of multifamily bonds that were issued on June 15th. The housing program bonds were issued as tax exempt and federally taxable bonds in two series designated as the 2006 Series A and the 2006 Series B. This is the second issuance of bonds under the housing program bonds indenture. This indenture is backed by the Agency's general obligation and allows financing of loans that are not easily financed under our mainstream single-family and multifamily indentures.

The 2006 Series A bonds were issued to finance down payment assistance loans. Approximately $47 million of bond proceeds were used to purchase CHAP and HiCAP loans that had accumulated in our warehouse facility over the past 18 months.

The 2006 Series B bonds are federally taxable and are issued to purchase $11 million of down payment assistance loans that were otherwise not eligible for tax-exempt financing and to purchase $50 million of loans -- these were multifamily loans -- from the Agency's housing assistance trust and our revolving credit facility. Securitizing these loans has created a liquidity in the housing assistance trust for other programmatic activities while lowering our borrowing costs.
given the complexity of these deals, and we'll be
continuing to provide this information at every one of
our meetings as we continue to, you know, learn new
things about the process ourselves.

Certainly doing this project has been the basis
for looking at the homelessness initiative and making
sure that the Agency at least has the wherewithal,
statutorily, to take on the complexity of these kinds
of deals.

CHAIRPERSON COURSON: Thank you. Thank you.

---o0o---

Item 8. Reports

CHAIRPERSON COURSON: The next item on our
agenda, I'm going to ask Bruce Gilbertson. You have
some financing reports at your place and ask Bruce to
give us a report on financing activity of the Agency.

MR. GILBERTSON: Good morning, Mr. Chairman,
Members of the Board. I have three financing reports
that I'll review with you briefly this morning. Two of
them are recent bond issuance activity, and the third
one is the update on a variable rate bonds and interest
rate swap portfolio.

In April we sold $108 million of housing
program bonds that were issued on May 2nd, and as you
can see, in June we sold about $77 million of multifamily bonds that were issued on June 15th. The housing program bonds were issued as tax exempt and federally taxable bonds in two series designated as the 2006 Series A and the 2006 Series B. This is the second issuance of bonds under the housing program bonds indenture. This indenture is backed by the Agency's general obligation and allows financing of loans that are not easily financed under our mainstream single-family and multifamily indentures.

The 2006 Series A bonds were issued to finance down payment assistance loans. Approximately $47 million of bond proceeds were used to purchase CHAP and HiCAP loans that had accumulated in our warehouse facility over the past 18 months.

The 2006 Series B bonds are federally taxable and are issued to purchase $11 million of down payment assistance loans that were otherwise not eligible for tax-exempt financing and to purchase $50 million of loans -- these were multifamily loans -- from the Agency's housing assistance trust and our revolving credit facility. Securitizing these loans has created a liquidity in the housing assistance trust for other programmatic activities while lowering our borrowing costs.
And secondly, the multifamily bonds were issued as tax-exempt bonds as a single series to provide financing for eight multifamily projects previously approved by this Board. All of the bonds were issued as variable rate demand obligations backed by the standby bond purchase agreement with DEPFA Bank. We negotiated three interest rate swap agreements with Merrill Lynch in the aggregate total of $22 million. The notional amount of the swaps represents the total amount of the permanent loans for these eight financings. Consistent with our strategy for previous multifamily transactions, amounts related to bridge loans and construction loans were not swapped due to the short-term duration of those loans.

Moving on to the variable debt report and interest rate swap report, as of June 15th, 2006, the Agency's total bond indebtedness was $7.4 billion. 6.7 billion or 90 percent of all outstanding bonds are variable interest rate bonds. 1.2 billion of the variable rate bonds were tied directly to variable rate assets. And 4.8 billion of variable rate bonds were hedged with fixed payer interest rate swaps. Nearly 95 percent of the remaining 714 million that is shown on the slide is not swapped or tied directly to variable rate assets. Other variable rate bonds are hedged with
other assets on the balance sheet. So, if you will, we have a balance sheet hedge for the $714 million.

Just a quick side note, we have a lot of variable rate debt in our portfolio. You'll be interested in knowing that we have a pending bond transaction scheduled to close in July in which we will issue $240 million of bonds under the home mortgage revenue bond indenture for our homeownership program. Half of all of the bonds issued in that financing, or $120 million, will be issued as fixed rate bonds. These bonds were successfully priced the last week in June, and it will represent the first time in well over six years that we have had such a significant block of fixed rate bonds issued as a part of our financing programs.

This slide shows the amount of variable rate bonds we have issued by type and bond indenture. Nearly 60 percent of all variable rate bonds have been issued as variable rate demand obligations. VRDOs, as we call them, continue to be our primary choice of variable rate instruments because with VRDOs, we achieve the lowest, all in bond cost, and currently there continues to be ample supply liquidity in the marketplace in the form of these standby bond purchase agreements. These agreements protect the Agency in the
event bondholders exercise their rights to put bonds
back to our remarketing agents, and the bonds cannot be
remarketed.

This slide illustrates the tax status of the
underlying bonds being hedged with our $4.8 billion of
interest rate swaps. Currently interest rate swaps
hedging taxable floating rate bonds represent less than
19 percent of initial outstanding. One year ago
taxable swaps represented almost 24 percent of swapped
initial outstanding. The decline illustrates the
reduction of taxable bond issuance over the last year
or two for the Agency.

With that, I'd open it up and be pleased to
respond to any questions.

CHAIRPERSON COURSON: Any questions from anyone
on the Board? You can ask them at your own peril.

Bruce, we do appreciate it. Thank you.

--o0o--

Item 9. Discussion of other Board matters

CHAIRPERSON COURSON: The next item is just
discussion of other Board matters. Are there any other
matters that the directors choose to bring before the
Board?

--o0o--

CHAIRPERSON COURSON: Seeing none, the next is to see if there is any public testimony from anyone who is present?

And seeing none, I will remind the Board that the next meeting is September 7th in Burbank.

And do we have parking credits today?

MS. OJIMA: No.

CHAIRPERSON COURSON: The Chair will note the one time he parks in the facility where he can get a credit, he once again must at his great personal expense pay for his own parking.

And with that note, we -- I'm sorry, Ms. Parker.

MS. PARKER: I --

CHAIRPERSON COURSON: -- is going to pay for my parking.

MS. PARKER: I can't even comment on that.

But I did want to give the Board a preview of coming attractions, something that you can think of and look forward to at future board meetings. I'm not necessarily going to promise it at the next one, but what I want to be bringing forward to you, I think it
will be good information and just a promise that we're
going to have our Director of Asset Management,
Margaret Alvarez, do a presentation for us on the
status of our REO sales. We have been very successful
on that, and we'll actually have accomplished and
completed one of the sales, and so I want to bring that
back to the Board and give them the status on where we
are on that.

The other thing is, given that we have our new
Director of Mortgage Insurance, I'm going to be asking
Chuck to give a status report of the Mortgage Insurance
Fund portfolio to the Board. I think that will be good
information for the Board to get Chuck's perspective,
certainly given his background and experience, when he
has a chance to go through our portfolio from a risk
standpoint and give you the benefit of his perspective
on it.

So with that, those are the -- some of the
coming attractions. And obviously we'll be keeping you
updated on where we are on the status of our
legislation and with the implementation of the
Governor's Homelessness Phase II and the process that
we're going to be seeing, and implementing that
initiative.

Thank you, Mr. Chairman.
CHAIRPERSON COURSON: And if there's no other additional comments, we will stand adjoined. Thank you.

(The meeting concluded at 11:37 a.m.)

--000--
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 13th day of July, 2006.

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

To: CalHFA Board of Directors

Date: September 7, 2006

From: Charles K. McManus, Acting Director of Mortgage Insurance

CALIFORNIA HOUSING FINANCE AGENCY

Subject: CALIFORNIA HOUSING LOAN INSURANCE FUND PRESENTATION

Attached are the supporting exhibits for the presentation regarding the California Housing Loan Insurance Fund.
California Housing Loan Insurance Fund

Presentation to the CalHFA Board of Directors

Charles K. McManus
Acting Director of Mortgage Insurance

September 7, 2006
California Housing Loan Insurance Fund

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F. Frequency of Foreclosure by FICO and LTV
G. Loss Rate by LTV and Condo/Non-Condo
H. Percentage of Cumulative Losses Paid by Year
I. Projected Claims Payments by Year
J. Actual and Projected Loan Payoffs (Terminations)
K. FICO Segmentation – 1988 through 2006
L. Loans with Total Debt Ratio over 55.0% by Book Year
M. Quality Control Plan
EXHIBIT A
California Housing Loan Insurance Fund

Expected Loss Rate - LTV and Condo Property Type\(^1\)

Data as of June 2006

<table>
<thead>
<tr>
<th>LTV</th>
<th>Premium Rate</th>
<th>Coverage</th>
<th>Expected Loss Rate</th>
<th>Expected Loss Ratio(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>No Condo</td>
<td>Condo @ 50%</td>
</tr>
<tr>
<td>85%</td>
<td>0.40%</td>
<td>35.0%</td>
<td>2.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>90%</td>
<td>0.55%</td>
<td>35.0%</td>
<td>3.6%</td>
<td>4.3%</td>
</tr>
<tr>
<td>95%</td>
<td>0.75%</td>
<td>35.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>97%</td>
<td>0.85%</td>
<td>35.0%</td>
<td>5.7%</td>
<td>6.8%</td>
</tr>
<tr>
<td>100%</td>
<td>0.85%</td>
<td>35.0%</td>
<td>6.8%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

\(^1\) Fixed Rate, 700 FICO, Owner Occupied, Single Family, Full Documentation Mortgage Insurance Policy

\(^2\) Assumes 325% PSA
## EXHIBIT B
California Housing Loan Insurance Fund

### Expected Frequency of Foreclosure by Other Risk Segments

**Expected Claim Rate**  
Data as of June 2006

<table>
<thead>
<tr>
<th>Amortization</th>
<th>Factor</th>
<th>Mix</th>
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</thead>
<tbody>
<tr>
<td>30 Year Fixed</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Fixed &lt; 30</td>
<td>0.90</td>
<td>0.0%</td>
</tr>
<tr>
<td>Fixed &gt; 30</td>
<td>1.10</td>
<td>0.0%</td>
</tr>
<tr>
<td>ARM 5/1 or longer</td>
<td>1.10</td>
<td>0.0%</td>
</tr>
<tr>
<td>ARM 5/1 (&lt;5 yr lock)</td>
<td>1.20</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>1.00</strong></td>
<td><strong>100.0%</strong></td>
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</tbody>
</table>

**Interest Only**

<table>
<thead>
<tr>
<th></th>
<th>Factor</th>
<th>Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-I/O or Option Pay</td>
<td>1.00</td>
<td>50.0%</td>
</tr>
<tr>
<td>I/O or Option Pay</td>
<td>1.15</td>
<td>50.0%</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>1.08</strong></td>
<td><strong>100.0%</strong></td>
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</tbody>
</table>

**Loan Purpose**

<table>
<thead>
<tr>
<th></th>
<th>Factor</th>
<th>Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Rate/Term Refinance</td>
<td>0.95</td>
<td>0.0%</td>
</tr>
<tr>
<td>C/O Refinance</td>
<td>1.25</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>1.00</strong></td>
<td><strong>100.0%</strong></td>
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</table>

**Property Type**

<table>
<thead>
<tr>
<th></th>
<th>Factor</th>
<th>Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family</td>
<td>1.00</td>
<td>50.0%</td>
</tr>
<tr>
<td>2-4 Family</td>
<td>1.20</td>
<td>0.0%</td>
</tr>
<tr>
<td>Condo</td>
<td>1.40</td>
<td>50.0%</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>1.20</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

**Occupancy**

<table>
<thead>
<tr>
<th></th>
<th>Factor</th>
<th>Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner Occupied</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Second Home</td>
<td>1.25</td>
<td>0.0%</td>
</tr>
<tr>
<td>Investor</td>
<td>1.50</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>1.00</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

**Documentation**

<table>
<thead>
<tr>
<th></th>
<th>Factor</th>
<th>Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Alternative (incl. BS)</td>
<td>1.10</td>
<td>0.0%</td>
</tr>
<tr>
<td>SIVA</td>
<td>1.25</td>
<td>0.0%</td>
</tr>
<tr>
<td>SISA</td>
<td>1.50</td>
<td>0.0%</td>
</tr>
<tr>
<td>NINA No Ratio</td>
<td>2.00</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>1.00</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

**Loan Size**

<table>
<thead>
<tr>
<th></th>
<th>Factor</th>
<th>Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conforming</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Jumbo</td>
<td>1.50</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>1.00</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
EXHIBIT C
California Housing Loan Insurance Fund

Condo Percentage (Number of loans)

Data as of June 2006

<table>
<thead>
<tr>
<th>Total Number of Policies</th>
<th>Number of Condo/Other</th>
<th>Percent of Condo/Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2,020</td>
<td>513</td>
</tr>
<tr>
<td>2001</td>
<td>3,361</td>
<td>772</td>
</tr>
<tr>
<td>2002</td>
<td>3,095</td>
<td>753</td>
</tr>
<tr>
<td>2003</td>
<td>1,575</td>
<td>428</td>
</tr>
<tr>
<td>2004</td>
<td>1,469</td>
<td>572</td>
</tr>
<tr>
<td>2005</td>
<td>2,378</td>
<td>1,268</td>
</tr>
<tr>
<td>2006</td>
<td>1,365</td>
<td>694</td>
</tr>
</tbody>
</table>

California Housing Insurance Fund
Condominium/Other Multi-Unit New Insurance Written
Percentage

![Bar chart showing the percentage of Condo/Other multi-unit new insurance written from 2000 to 2006.](chart.png)
# EXHIBIT D

California Housing Loan Insurance Fund

FICO Segmentation First Mortgages - Percent New Insurance Written Dollars

<table>
<thead>
<tr>
<th>Book Year</th>
<th>&lt;580</th>
<th>580 to 619</th>
<th>620 to 659</th>
<th>660 to 679</th>
<th>680 to 735</th>
<th>&gt;735</th>
<th>No FICO</th>
<th>Lease</th>
<th>Purchase</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>1988</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
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<td>100.0%</td>
</tr>
<tr>
<td>1989</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
<td>100.0%</td>
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<tr>
<td>1990</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
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<td>1991</td>
<td>- %</td>
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<td>- %</td>
<td>- %</td>
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<td>1992</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
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<tr>
<td>1993</td>
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<tr>
<td>1994</td>
<td>- %</td>
<td>- %</td>
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<td>1995</td>
<td>- %</td>
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<td>1996</td>
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<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
<td>100.0%</td>
</tr>
<tr>
<td>1997</td>
<td>3.5 %</td>
<td>4.3 %</td>
<td>7.4 %</td>
<td>5.2 %</td>
<td>27.3 %</td>
<td>29.4 %</td>
<td>22.9 %</td>
<td>- %</td>
<td>100.0 %</td>
<td>100.0%</td>
</tr>
<tr>
<td>1998</td>
<td>1.2 %</td>
<td>3.5 %</td>
<td>12.3 %</td>
<td>9.7 %</td>
<td>30.7 %</td>
<td>26.0 %</td>
<td>16.6 %</td>
<td>- %</td>
<td>100.0 %</td>
<td>100.0%</td>
</tr>
<tr>
<td>1999</td>
<td>1.5 %</td>
<td>2.7 %</td>
<td>16.2 %</td>
<td>13.6 %</td>
<td>37.7 %</td>
<td>25.1 %</td>
<td>3.2 %</td>
<td>- %</td>
<td>100.0 %</td>
<td>100.0%</td>
</tr>
<tr>
<td>2000</td>
<td>1.0 %</td>
<td>5.4 %</td>
<td>20.6 %</td>
<td>13.0 %</td>
<td>34.7 %</td>
<td>22.6 %</td>
<td>2.7 %</td>
<td>- %</td>
<td>100.0 %</td>
<td>100.0%</td>
</tr>
<tr>
<td>2001</td>
<td>0.8 %</td>
<td>2.5 %</td>
<td>14.9 %</td>
<td>9.7 %</td>
<td>32.3 %</td>
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<td>12.7 %</td>
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</tr>
<tr>
<td>2002</td>
<td>0.5 %</td>
<td>2.7 %</td>
<td>18.2 %</td>
<td>10.7 %</td>
<td>35.4 %</td>
<td>27.3 %</td>
<td>1.7 %</td>
<td>3.5 %</td>
<td>100.0 %</td>
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<tr>
<td>2003</td>
<td>0.3 %</td>
<td>2.9 %</td>
<td>17.8 %</td>
<td>12.6 %</td>
<td>32.4 %</td>
<td>26.2 %</td>
<td>0.1 %</td>
<td>7.7 %</td>
<td>100.0 %</td>
<td>100.0%</td>
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<td>2004</td>
<td>0.6 %</td>
<td>4.4 %</td>
<td>20.4 %</td>
<td>12.8 %</td>
<td>29.3 %</td>
<td>27.9 %</td>
<td>1.2 %</td>
<td>3.3 %</td>
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<td>100.0%</td>
</tr>
<tr>
<td>2005</td>
<td>0.2 %</td>
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<td>21.5 %</td>
<td>11.5 %</td>
<td>31.0 %</td>
<td>30.0 %</td>
<td>1.0 %</td>
<td>0.2 %</td>
<td>100.0 %</td>
<td>100.0%</td>
</tr>
<tr>
<td>2006</td>
<td>0.1 %</td>
<td>2.6 %</td>
<td>20.8 %</td>
<td>11.8 %</td>
<td>31.9 %</td>
<td>31.6 %</td>
<td>1.2 %</td>
<td>- %</td>
<td>100.0 %</td>
<td>100.0%</td>
</tr>
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</table>
### EXHIBIT F

California Housing Loan Insurance Fund

**Expected Frequency of Foreclosure by FICO & LTV**

<table>
<thead>
<tr>
<th>FICO</th>
<th>580</th>
<th>600</th>
<th>620</th>
<th>640</th>
<th>660</th>
<th>680</th>
<th>700</th>
<th>720</th>
<th>740</th>
<th>760</th>
<th>780</th>
<th>800</th>
<th>820</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LTV</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60%</td>
<td>3.3%</td>
<td>2.5%</td>
<td>1.9%</td>
<td>1.6%</td>
<td>1.2%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.6%</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>65%</td>
<td>4.4%</td>
<td>3.3%</td>
<td>2.5%</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.2%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>70%</td>
<td>6.1%</td>
<td>4.5%</td>
<td>3.4%</td>
<td>2.5%</td>
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<td>1.6%</td>
<td>1.2%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.8%</td>
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</tr>
<tr>
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<td>8.5%</td>
<td>6.3%</td>
<td>4.6%</td>
<td>3.4%</td>
<td>2.6%</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.3%</td>
<td>1.1%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.7%</td>
</tr>
<tr>
<td>80%</td>
<td>11.8%</td>
<td>8.7%</td>
<td>6.3%</td>
<td>4.6%</td>
<td>3.4%</td>
<td>2.6%</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.3%</td>
<td>1.1%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>85%</td>
<td>16.0%</td>
<td>12.0%</td>
<td>8.8%</td>
<td>6.5%</td>
<td>4.8%</td>
<td>3.6%</td>
<td>2.7%</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>1.1%</td>
<td>1.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>90%</td>
<td>21.0%</td>
<td>16.2%</td>
<td>12.2%</td>
<td>9.0%</td>
<td>6.6%</td>
<td>4.8%</td>
<td>3.6%</td>
<td>2.7%</td>
<td>2.1%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>1.2%</td>
<td>1.0%</td>
</tr>
<tr>
<td>95%</td>
<td>27.0%</td>
<td>21.3%</td>
<td>16.4%</td>
<td>12.4%</td>
<td>9.2%</td>
<td>6.7%</td>
<td>4.9%</td>
<td>3.6%</td>
<td>2.7%</td>
<td>2.1%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>1.2%</td>
</tr>
<tr>
<td>97%</td>
<td>29.1%</td>
<td>23.7%</td>
<td>18.5%</td>
<td>14.1%</td>
<td>10.5%</td>
<td>7.8%</td>
<td>5.7%</td>
<td>4.2%</td>
<td>3.1%</td>
<td>2.4%</td>
<td>1.8%</td>
<td>1.5%</td>
<td>1.2%</td>
</tr>
<tr>
<td>100%</td>
<td>32.2%</td>
<td>27.3%</td>
<td>21.6%</td>
<td>16.7%</td>
<td>12.5%</td>
<td>9.3%</td>
<td>6.8%</td>
<td>5.0%</td>
<td>3.7%</td>
<td>2.7%</td>
<td>2.1%</td>
<td>1.6%</td>
<td>1.4%</td>
</tr>
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</table>
EXHIBIT G
California Housing Loan Insurance Fund

Expected Loss Rate - LTV and Condo Property Type\(^1\)

Data as of June 2006

<table>
<thead>
<tr>
<th>LTV</th>
<th>Premium Rate</th>
<th>Coverage</th>
<th>Expected Loss Rate</th>
<th>Expected Loss Ratio(^2)</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>No Condo</td>
<td>Condo @ 50%</td>
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<tr>
<td>85%</td>
<td>0.40%</td>
<td>35.0%</td>
<td>2.7%</td>
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</tr>
<tr>
<td>90%</td>
<td>0.55%</td>
<td>35.0%</td>
<td>3.6%</td>
<td>4.3%</td>
</tr>
<tr>
<td>95%</td>
<td>0.75%</td>
<td>35.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>97%</td>
<td>0.85%</td>
<td>35.0%</td>
<td>5.7%</td>
<td>6.8%</td>
</tr>
<tr>
<td>100%</td>
<td>0.85%</td>
<td>35.0%</td>
<td>6.8%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

\(^1\) Fixed Rate, 700 FICO, Owner Occupied, Single Family, Full Documentation Mortgage Insurance Policy

\(^2\) Assumes 325% PSA
EXHIBIT H
California Housing Loan Insurance Fund

CalHFA Development of Losses Relative to Ultimate

Percent Paid

Development Year

- Milliman CalHFA
- 1990
- 1991
- 1992
- 1993
- 1994
- 1995
- 1996
- 1997
- 1998
- 1999
- 2000
- 2001
- 2002
- 2003
- 2004
- 2005
EXHIBIT I
California Housing Loan Insurance Fund

Projected Claims Payment Pattern

<table>
<thead>
<tr>
<th>Year</th>
<th>Incremental Payment Pattern</th>
<th>Cumulative Payment Pattern</th>
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<tr>
<td>1</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>2</td>
<td>0.68%</td>
<td>0.68%</td>
</tr>
<tr>
<td>3</td>
<td>9.02%</td>
<td>9.70%</td>
</tr>
<tr>
<td>4</td>
<td>14.09%</td>
<td>23.79%</td>
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<td>5</td>
<td>18.36%</td>
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<td>6</td>
<td>16.43%</td>
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<td>7</td>
<td>15.10%</td>
<td>73.68%</td>
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<td>8</td>
<td>13.38%</td>
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<td>9</td>
<td>5.47%</td>
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<td>10</td>
<td>2.62%</td>
<td>95.15%</td>
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<td>11</td>
<td>1.99%</td>
<td>97.14%</td>
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<td>12</td>
<td>0.90%</td>
<td>98.05%</td>
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<td>0.65%</td>
<td>98.69%</td>
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<tr>
<td>14</td>
<td>0.44%</td>
<td>99.13%</td>
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<td>15</td>
<td>0.42%</td>
<td>99.55%</td>
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<td>16</td>
<td>0.29%</td>
<td>99.84%</td>
</tr>
<tr>
<td>17</td>
<td>0.16%</td>
<td>100.00%</td>
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</table>
## EXHIBIT K
California Housing Loan Insurance Fund

### FICO Segmentation First Mortgages - Percent New Insurance Written Dollars

<table>
<thead>
<tr>
<th>Book Year</th>
<th>&lt;580</th>
<th>580 to 619</th>
<th>620 to 659</th>
<th>660 to 679</th>
<th>680 to 735</th>
<th>&gt;735</th>
<th>No FICO</th>
<th>Lease Purchase</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>1988</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
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<td>100.0 %</td>
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<tr>
<td>1989</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
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<td>1990</td>
<td>- %</td>
<td>- %</td>
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<td>- %</td>
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<td>100.0 %</td>
<td>- %</td>
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</tr>
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<td>1991</td>
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<td>- %</td>
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<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1995</td>
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<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1996</td>
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<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1997</td>
<td>3.5 %</td>
<td>4.3 %</td>
<td>7.4 %</td>
<td>5.2 %</td>
<td>27.3 %</td>
<td>29.4 %</td>
<td>22.9 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1998</td>
<td>1.2 %</td>
<td>3.5 %</td>
<td>12.3 %</td>
<td>9.7 %</td>
<td>30.7 %</td>
<td>26.0 %</td>
<td>16.6 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1999</td>
<td>1.5 %</td>
<td>2.7 %</td>
<td>16.2 %</td>
<td>13.6 %</td>
<td>37.7 %</td>
<td>25.1 %</td>
<td>3.2 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>2000</td>
<td>1.0 %</td>
<td>5.4 %</td>
<td>20.6 %</td>
<td>13.0 %</td>
<td>34.7 %</td>
<td>22.6 %</td>
<td>2.7 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>2001</td>
<td>0.8 %</td>
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<td>14.9 %</td>
<td>9.7 %</td>
<td>32.3 %</td>
<td>26.5 %</td>
<td>12.7 %</td>
<td>0.6 %</td>
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</tr>
<tr>
<td>2002</td>
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<td>18.2 %</td>
<td>10.7 %</td>
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<td>27.3 %</td>
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<td>3.5 %</td>
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</tr>
<tr>
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<td>17.8 %</td>
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<td>26.2 %</td>
<td>0.1 %</td>
<td>7.7 %</td>
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</tr>
<tr>
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<td>20.4 %</td>
<td>12.8 %</td>
<td>29.3 %</td>
<td>27.9 %</td>
<td>1.2 %</td>
<td>3.3 %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>2005</td>
<td>0.2 %</td>
<td>4.6 %</td>
<td>21.5 %</td>
<td>11.5 %</td>
<td>31.0 %</td>
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</tr>
<tr>
<td>2006</td>
<td>0.1 %</td>
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<td>20.8 %</td>
<td>11.8 %</td>
<td>31.9 %</td>
<td>31.6 %</td>
<td>1.2 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>Book Year</td>
<td>Total Number of Loans</td>
<td>Number of Loans &gt; 55%</td>
<td>Percentage of Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------</td>
<td>-----------------------</td>
<td>-----------------------</td>
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<td></td>
</tr>
<tr>
<td>2004</td>
<td>964</td>
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<td>0.52%</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>2005</td>
<td>2265</td>
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<td>7.70%</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>2006</td>
<td>2116</td>
<td>230</td>
<td>10.87%</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

EXHIBIT L
California Housing Loan Insurance Fund
Total Debt Ratio Greater Than 55.0% by Book Year
EXHIBIT M
QUALITY CONTROL PLAN
CALHFA MORTGAGE INSURANCE SERVICES
(Effective June 2006)

GOALS AND OBJECTIVES

- Verify compliance with CalHFA underwriting requirements.
- Identify underwriting trends that create increased risk of future defaults and losses and convey findings to management for corrective action.
- Evaluate the quality of loans submitted for mortgage insurance coverage.
- Verify the accuracy and veracity of documentation submitted.
- Identify those areas, concentrations, lenders and agents who contribute to losses, fraud or unacceptable levels of risk.
- Make recommendations for changes in underwriting procedures and guidelines.

STRATEGIES

To accomplish the above objectives, the following strategies will be employed:

- Conduct random audits of 10% of monthly production
  - Loans are selected for audit from a list of Mortgage Insurance Services underwriter approved loans for each calendar month, including loans from delegated underwriters.
  - Loans are selected for audit no later than three months after underwriter approval.
  - Based on current production levels of approximately 300 loans per month, a minimum of 10% will be audited.
  - Audits are expected to be completed within 15 working days of receipt of the underwriting files from Archives. The files are to be ordered from Archives on the Monday of the first week of the calendar month and are expected to be available for auditing within three working days.
  - Audits resulting in findings of suspected fraud or misrepresentation are to be referred to the Director of Mortgage Insurance upon discovery and referred to Genworth for further investigation, if necessary.

- Conduct an analysis of delegated and automated underwriting exceptions
  - Identify those loans where the FICO score and/or Total Debt Ratio fall outside underwriting guidelines through query of the Mortgage Insurance Application System.
  - Conduct separate analyses of loans subjected to automated underwriting and those subjected to manual underwriting for comparison.
  - Analyze loans originated by lenders with delegated underwriting authority to identify possible sources of exceptions.
  - The analysis will be conducted the first week of April, July, October and January for loans approved by underwriting during the previous three months.
• Periodically perform an analysis of the current portfolio beginning with condominium loans in areas of high concentration
  o Through database queries, show the dispersion of the condominium portfolio across county, city, ZIP code and project.
  o Conduct an analysis the second week of April, July, October and January for loans approved by underwriting during the previous three months.
  o Produce a quarterly analysis showing concentration by property type, city and county will to be completed by the second week of April, July, October and January for the previous three months’ production.

• Perform random audits of < 80% LTV Agency loans
  o Randomly select 10% of < 80% LTV conventional loans purchased by the Agency from an automatically generated list of purchased loans from the LAS database.
  o Select loans for audit no later than three months after purchase by the Agency.
  o Audit a minimum of 10% of < 80% LTV loans.
  o Complete audits within 15 working days of receipt of the underwriting files from Archives. The files are to be ordered from Archives on the Monday of the third week of the calendar month and are expected to be available for auditing within three working days.
  o Refer audits resulting in findings of suspected fraud or misrepresentation to the Director of Mortgage Insurance upon discovery for discussion and further action as is deemed appropriate.

• Maintain and upgrade the quality control database and the corresponding operating manual for the database
  o Utilize Microsoft Access for the storage and retrieval of Quality Control audit findings.
  o Upgrade error codes and risk severity ratings to better track and identify trends and issues that may contribute to losses.

• Create and generate standardized monthly and quarterly reports to monitor portfolio performance
  o Generate a monthly Quality Control summary report within 2 working days of completion of random monthly audits on both Mortgage Insurance Services production and < 80% LTV production
  o Generate loan level Quality Control finding reports on those loans where an audit reveals suspected fraud, misrepresentation or inappropriate or high risk immediately after the conclusion of the loan audit and submit them to the Director of Mortgage Insurance.
  o Generate quarterly condominium portfolio dispersion reports as described above.
  o Generate quarterly portfolio concentration report by property type (e.g. Single Family detached, condominium, condominium conversion, PUD).
  o Create any other reports deemed necessary by the Director of Mortgage Insurance or Mortgage Insurance Risk Management Committee.
Contract for resources such as appraisal reviews, credit repositories, person and asset searches and verification of property sales and transfers
  - The Agency currently contracts with Accurint for person and asset searches whenever owner occupancy is suspect.
  - Experian is utilized on a monthly basis for review credit reports and a report is ordered for each file audited.
  - DataQuick is used on each audit to verify all appraisal sales comparables
  - The Agency presently contracts with CoreLogic to obtain review appraisal data used on an 'as needed' basis whenever an appraised value is suspect.
State of California

MEMORANDUM

To: CalHFA Board of Directors

Date: August 24, 2006

From: Theresa A. Parker, Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Approving CalHFA’s Board of Directors Compensation Committee – Resolution 06-16

At the July Board of Directors meeting, Board members expressed the desire to establish a committee of the Board that would study the competitiveness of salaries and other compensation offered to CalHFA employees. The Board also expressed an interest consider alternatives to CalHFA’s current compensation plan that would bring the Agency into line with the compensation of relevant labor pools.

Presented for your consideration is Resolution 06-16 which establishes a three member Compensation Committee and which will operate in an advisory role. In addition, staff has prepared for your consideration a Compensation Committee Charter (see attached) which outlines the mission, membership, governance and duties of the committee.

Your approval of Resolution 06-16, establishing the committee, and the Compensation Committee Charter is requested.
CALIFORNIA HOUSING FINANCE AGENCY
COMPENSATION COMMITTEE CHARTER
AUGUST, 2006

MISSION

The Compensation Committee (the "Committee") is a committee of, and reports to, the Board of Directors of the California Housing Finance Agency (the "Board"). Through this Charter, the Board delegates certain responsibilities to assist the Board in fulfilling its oversight responsibilities in the compensation of key exempt management with the Agency. In performing its duties, the Committee will recommend to the Board compensation policies and procedures designed to attract and retain the best personnel to allow the Agency to achieve its goals and remain competitive in the marketplace.

MEMBERSHIP

The Committee will be comprised of no fewer than three voting members of the Board, to be selected by the Chair of the Board to serve on a rotational basis with staggered terms. The Committee Chair will be designated by the Board Chair.

AUTHORITY

The Committee is established by Board Resolution 06-16 and will act in an advisory capacity to the Board. Staff of the Agency will serve as a resource to Committee. In consultation with the Board Chairman and the Agency Executive Director, the Committee may direct the Agency to engage consultants and advisors to assist the Committee in the execution of its duties. The Committee has the authority to conduct any review appropriate to fulfilling its responsibilities. All employees of the Agency are directed to cooperate as requested by members of the Committee and the Committee will have complete access to Agency records and data.

MEETINGS

The Committee will meet as often as its members determine is necessary, but not less frequently than twice each calendar year. The committee will report its proceedings and recommendations to the full Board, at the first regular meeting of the Board following a Committee meeting. All meetings of the Committee shall be open public meetings subject to the same notice and agenda procedures as are regular meetings of the Board.
Minutes of each meeting will be prepared and sent to all members of the Board. The Committee minutes need not be verbatim. Minutes of the Committee will be presented to the Committee for review and approval at the next meeting of the Committee. Minutes of Committee meetings are public records unless exempted under the California Public Records Act or other applicable law.

DUTIES

The Committee will conduct the following activities:

1. Make recommendations to the full Board to enable the Board to carry out its duties and functions under Health and Safety Code section 50909;

2. Periodically cause to be conducted salary surveys that will form the basis of the design of a compensation plan that will attract and retain senior executive personnel qualified to lead the Agency in its mission and maintain its competitive posture in the marketplace. Such surveys will be conducted by independent outside advisors based on a comparison of compensation plans and compensation levels of other state and local housing finance agencies, other comparable agencies of the State of California, non-profit housing agencies, for-profit institutions and other relevant labor pools;

3. Periodically review and evaluate, with the assistance of Agency management, staff and outside advisors, the structure and level of Agency compensation of those senior executives whose salaries are established by the Board pursuant to section 50909;

4. Annually review the performance of the Executive Director;

5. Based on the annual review of the Executive Director’s performance and the results of the salary surveys conducted by independent outside advisors, make a recommendation to the Board for the compensation level of the Executive Director;

6. Annually review that portion of the Agency’s budget containing the compensation of key exempt management and recommend to the Board approval or amendments to those compensation levels. The Committee’s recommendation will be based on a review of performance evaluations completed by the Executive Director and the results of the salary surveys conducted by outside advisors;

7. Review and discuss management succession at least annually;

8. Review legal and regulatory matters that may have a material impact on the Agency’s compensation philosophy, structure and plans.
OTHER COMMITTEE DUTIES

In addition to the duties outlined above, the Committee annually will also:

1. Conduct a review of its performance, including a review of its compliance with this Charter;

2. Review and assess the adequacy of this Charter taking into account all legislative, regulatory and contractual requirements applicable as well as any best practices, and, if appropriate, will recommend Charter amendments to the Board.
RESOLUTION 06-16

RESOLUTION APPROVING COMPENSATION COMMITTEE CHARTER

WHEREAS, the Board of Directors of the California Housing Finance Agency (the “Agency”) desires to establish a Compensation Committee to advise the Board on matters related to the compensation of Agency employees, and

WHEREAS, the Chairman of the Board and the staff of the Agency have developed a proposed charter for the committee;

WHEREAS, the Board of Directors directs that any actions of the Board of Directors to set such compensation, as may be authorized by current or future law, should be taken by the full Board sitting in open, public setting,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The attached “Compensation Committee Charter-August 2006” is hereby adopted by the Board.

I hereby certify that this is a true and correct copy of Resolution 06-16 adopted at a duly constituted meeting of the Board of Directors of the Agency held on September 7, 2006, at Burbank, California.

ATTEST: _________________________
Secretary